Canada's Public Sector
A Graphic Overview

S. Damus

Economic Council of Canada
1992

92-03869/

Canadian Cataloguing in Publication Data

Damus, S.

Canada's public sector: a graphic overview

Issued also in French under title: Le secteur public.
ISBN 0-662-19420-9
DSS cat. no. EC22-181/1992E

1. Government spending policy – Canada.
2. Canada – Appropriations and expenditures.
3. Federal-provincial fiscal relations – Canada.
I. Economic Council of Canada. II. Title

HJ7660.D35 1992 339.5'22'0971 C92-099574-8

CONTENTS

Acknowledgments v

Foreword vii

Highlights ix

Note on Interpretation xi

I Postwar Growth of Government (Overview) 1

II Government Debt/Debt Service 5

III Prices to Government 9

IV Governing Instruments 11
A. Program Operation 12
B. Payments to Individuals and Business 12
C. Crown Corporations 14
D. Low Interest Financing 14
E. Regulation 15
F. Tax Expenditures 16

V Health and Welfare Expenditure 19
Health Care 19
Social Services 21

VI Education 23

VII National Security and Government Overhead 25

VIII Government Capital Spending 27

IX Level of Government 29

X Taxes 33

XI International Comparisons 37

List of Charts 45

© Minister of Supply and Services Canada 1992

Available in Canada through

Associated Bookstores
and other booksellers

or by mail from

Canada Communication Group – Publishing
Ottawa, Canada K1A 0S9

Catalogue No. EC22-181/1992E
ISBN 0-662-19420-9

Printed in Canada

ACKNOWLEDGMENTS

The author is grateful to a number of people who assisted in producing this document: Bryne Purchase, Director, who oversaw the project, and John Serjak, Daniel Johnson, Marie-Diane Hudon, William Cranston of the research staff.

Special thanks to Gilles Longtin and Lynn Landriau who produced the final graphics.

FOREWORD

Governments touch the lives of people every day, in almost everything we do. They set the legal framework by which we are governed, and they provide a vast array of services that are in daily use.

A typical day might start by brewing coffee with city water while we listen to the Environment Canada weather forecast. We put out the garbage, see the kids off to public school and then take public transit to work (in a smokefree building). After work, we do the shopping (plus provincial and federal sales taxes). Once home, we read the mail, pay the hydro bill, and before we go to bed we can watch the CBC news, which is mainly about politics and government.

So governments provide goods and services; they set the framework of laws; they regulate the activities of employers and businesses. They are social institutions, at times playing a unique role, and at times providing services which could also be done by the family, churches, charities, cooperatives and business corporations. All in all, they not only affect our daily lives but they influence the performance of the economy.

Despite this pervasive influence, few of us know everything that governments do. Fewer still understand how those activities affect the performance of the economy. As a result, the Prime Minister requested the Economic Council of Canada to undertake a major project "on the structure of government in Canada and to contribute importantly to the public debate on how governments can achieve their objectives while effectively controlling costs to the private sector." Since then, the decision has been made to close down the Council. However, this work program will be completed over the next two years.

The project will generate a number of publications, a series of seminars, a major policy conference, and, towards the end of 1993, a final summary report. The program will focus on five aspects of government: efficient size and jurisdiction, regulation, efficient program delivery, efficient pricing, and the policy-making process. The project director is Bryne Purchase, Senior Research Director at the Council. He will be guided by an Advisory Committee composed of former Council members, representatives of federal, provincial and municipal governments, and leaders from business, labour and the universities.

This publication was prepared by Sylvester Damus, a member of the Council staff. Without attempting to comment on the efficiency of government, it charts the relevant background on the history, size and scope of governments in Canada. It goes back as

far as the 1920s, and where possible, provides international comparisons. While it tells a fascinating story of change over time, it is obviously limited to reflecting the activities that can be measured. It is our hope that the analytical work to be published over the next two years will give Canadians a better sense of the impact of government and how it can better meet our social and political objectives.

Judith Maxwell
Chairman

HIGHLIGHTS

- Government outlay, as a share of the economy, climbed steadily from the postwar low in 1948 until 1983 when it reached the proportion achieved in World War II. The ratio declined slightly during the 1980s but increased again in 1990 as recession caused GDP growth to slump.

- Social program expenditure grew particularly rapidly in the 1960s.

- Prices paid by government have grown faster than comparable prices paid for private services.

- Since the mid-1970s, the interest on the public debt has been growing faster than other government transfers to persons and business. Interest on the public debt is now the second-largest expenditure after social welfare; and it is larger than education and health.

- Federal budget surpluses were relatively large after the war. Smaller surpluses were achieved in later years, but since 1975 there have been sixteen consecutive federal deficits.

- The three largest items of government expenditure are now: social services, debt charges, and health care.

- Canada is a major capital importer. Provincial and local governments have always placed bonds abroad. The federal government also began to borrow abroad during the 1970s. About 30 per cent of government debt is owed to non-residents.

- Provincial government expenditure has been rising in importance. Provinces and local governments together now spend substantially more than the federal government.

- Gross investment by government has been falling in relation to GDP since 1966.

- In terms of overall spending in relation to the economy, governments in Canada rank in the middle of the seven major industrial countries. They spend more than governments in the United States and Japan, and less than in Europe.

- In international comparison, Canadian governments stand out in three ways: they have incurred more debt, they spend more on education, and they rely less on social security taxes.

NOTE ON INTERPRETATION

Some official statistical terminology may be different from that used in less-specialized discourse. Notes are used throughout this chartbook in an attempt to clarify the differences while preserving the original terminology for those who may wish to refer to the official data.

Interpreting government statistics involves a number of difficulties. For example, one problem is that there is no generally accepted figure that represents the total size of government. Should Crown corporations be included? Should we include so-called "tax expenditures" – the inducements to particular types of behaviour encouraged by tax deductions? The list of what is to be included when measuring the size of government differs from jurisdiction to jurisdiction even within Canada, and it differs depending on the purpose of the analysis.

Another problem is comparing the size of government and the total economy. Lack of a measure of government service output leads to measurement of government activity by expenditure on inputs. Private activity is measured by value of outputs produced. Moreover, by engaging in redistributive transfers, government assumes a command over the economy larger than its role as direct producer/consumer of goods and services.

Government spending, including transfers, fails to capture all aspects of government. The expenditure data presented here understate the true influence of government. They exclude tax expenditures, private sector compliance costs for regulation and taxation, and governments' influence by setting the legal framework.

The above mentioned problems also render international comparisons difficult. In Canada, health care is shown as a large government expenditure. In the United States, where health care insurance is usually administered through the workplace, employer contributions to health care plans are tax deductible. However, the U.S. "tax expenditure" on health care is not recorded in statistics on health care expenditure by the U.S. government. The data thus understate U.S. government support of health care relative to Canadian government health care spending. Where one government may spend on a program, or grant a tax incentive, to achieve a social objective, another may impose a regulation to achieve the same end.

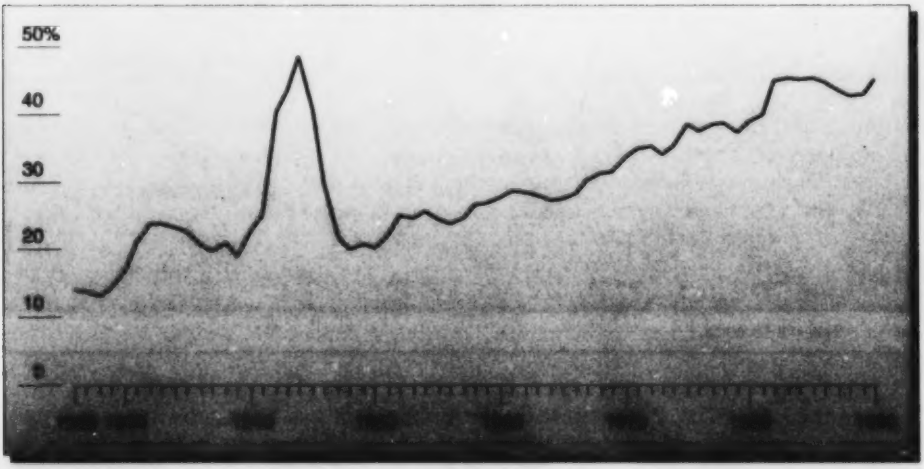
Comparison of trend data also poses special problems. Comparability of data over time suffers when changes are made to employee or agency classification. For example, Canadian postal workers were counted as government workers until 1982, when the postal service was transferred to a government-owned corporation. This change has effects on the trends in average federal government wages and salaries that could mislead if the change in composition of government was not flagged.

1 Postwar Growth of Government (Overview)

The charts in this section describe the changing ratio of government outlay[1] to national economic output. Just as an individual or a family may change spending patterns from time to time, so do countries. What the graphs in this section show are the changing shares of government spending in the economy. Two points stand out:

- Government outlay, as a share of the economy,[2] almost reached the proportion achieved in World War II before levelling off in 1986, and then slightly declining in subsequent years.

1. Government outlay as a per cent of GDP, 1926-90
Federal, provincial, and local, current, capital, and interest



Source National Accounts.

- Major sources of government spending growth included new programs. The program innovations involve several federal and provincial shared initiatives designed to improve Canada's social safety net, in particular health care.

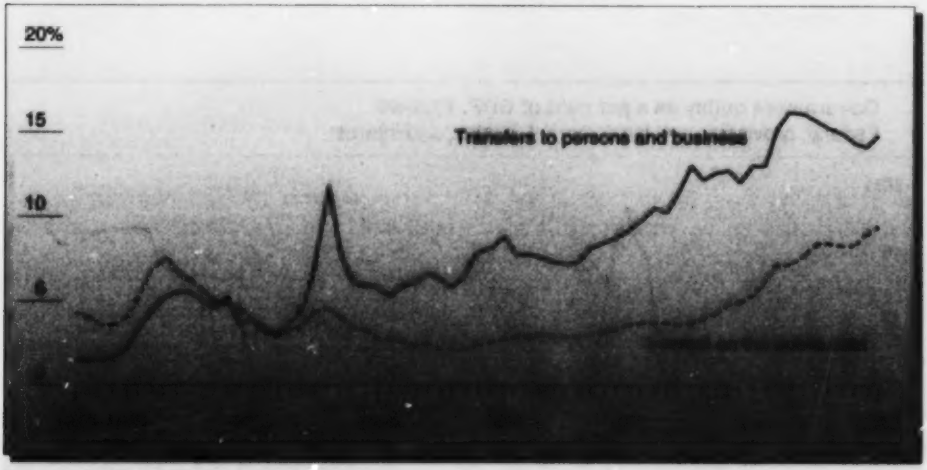
1 As measured by the amount of money used by federal, provincial, and local governments for their own direct program expenditure (e.g., defence, education, and health care), for transfers to individuals (e.g., social assistance and OAS pensions) and business (e.g., export assistance and farm subsidies), for investment in new buildings and roads, and for interest on the public debt, government has grown to about 45 per cent of GDP.

2 Measured by Gross Domestic Product (GDP), the value of all goods and services produced in Canada.

Social programs include expenditures that are part of a larger category of transfer payments. This category includes transfers to universities, to Crown corporations such as Canadian Mortgage and Housing (CMHC), and income support to farmers (the latter two are considered transfers to business). Transfers to persons under various social programs dominate the total.

Governments incur debt by borrowing to cover the difference between revenues and expenditures. Interest on the public debt is also considered a transfer payment because it redistributes income from private taxpayers and purchasers of new bonds to private holders of previously issued bonds.

2. Transfers from government as a per cent of GDP, 1926-90

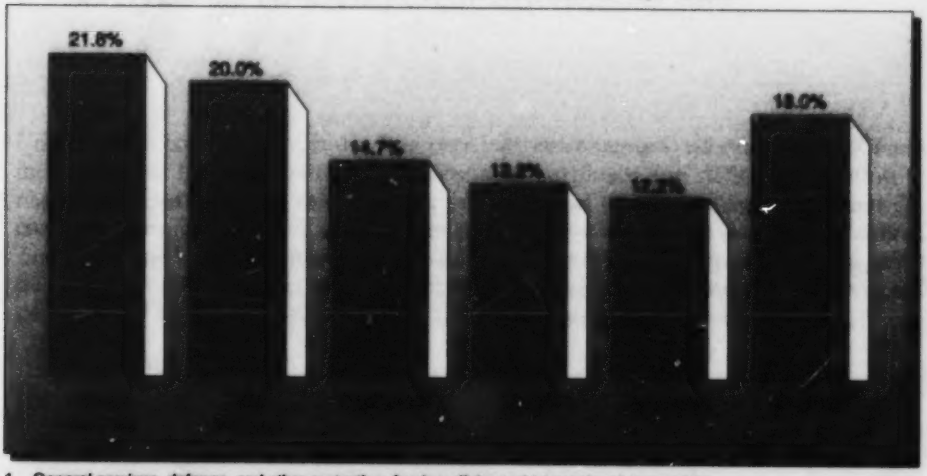


Source: National Accounts.

Since the mid-1970s, the interest on the public debt has been growing faster than transfers to persons and business. It is now the second-largest expenditure after social welfare and larger than education and health.

The next chart shows government outlays in fiscal year 1990/91 grouped under six major headings. (The outlays include consumption, investment, and transfers by federal, provincial, and local governments.)

3. Major categories of expenditure as a per cent of total outlay, 1990/91

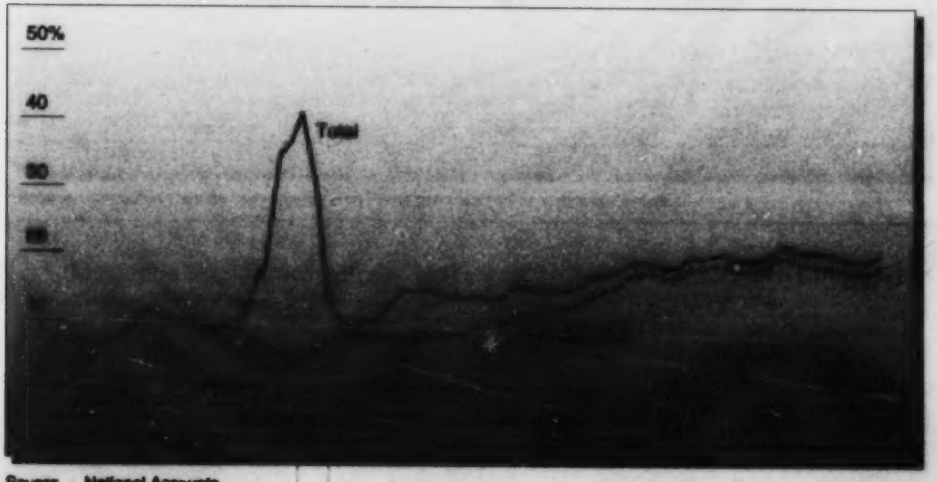


1 General services, defence, and other protection, foreign affairs and international cooperation.
2 Transport, communications, resource conservation, industrial development, environment, recreation, culture, regional planning, and development.

Source National Accounts and Financial Management System.

Resources used directly in government consumption and investment (for example, for wages of employees in a government department, or computers in Revenue Canada) amount to considerably less than total government outlay (including transfers). Indeed, relative to GDP, government consumption drifted downwards since 1982.

4. Government consumption expenditure as a per cent of GDP, 1926-90



Source National Accounts.

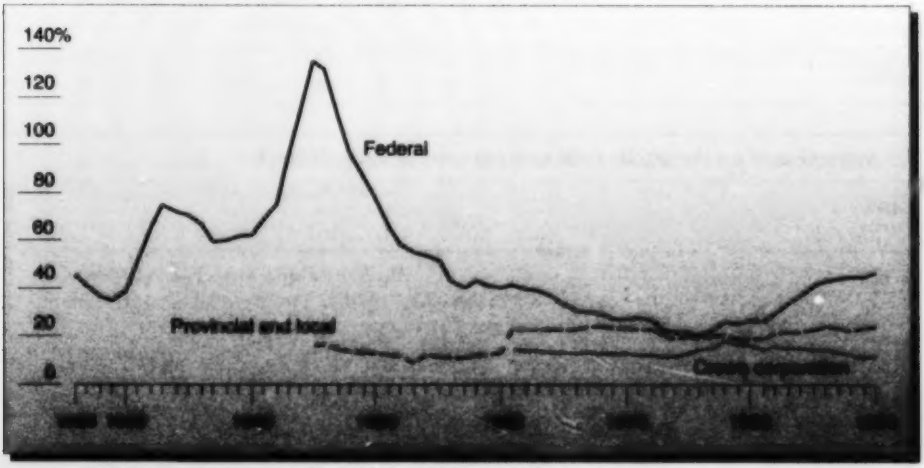
II GOVERNMENT DEBT/DEBT SERVICE

Governments borrow to cover the difference between revenues and expenditure. Charts in this section trace the pattern of government surpluses and deficits in relation to national output and then make some comparisons of the accumulated debt and the corresponding debt service costs. As in the previous charts, the data cover federal, provincial, and local government debt. Also included are Crown corporation gross direct debt raised on credit markets. All debt figures used here are gross, that is without deduction of known financial assets and including intergovernment credit.

Several points stand out:

- Canada emerged from World War II with a very large government debt.

5. Government debt as a per cent of GDP, 1926-90
Federal, provincial, and local, and Crown corporation gross direct, credit market debt



SOURCE Statistics Canada, National Balance Sheet and Historical Statistics of Canada.

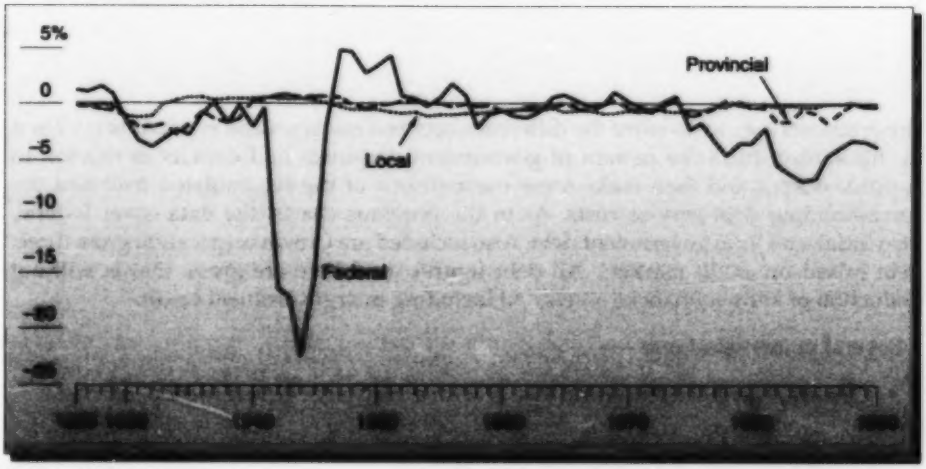
- In relation to GDP, the debt declined sharply after the War and then continued to decline slowly until 1976.

Two factors contributed to reduction in the debt to GDP ratio:

- Increase in GDP by growth in real output and inflation.
- Government budget surpluses.

Federal budget surpluses were relatively large after the war. Smaller surpluses were achieved in later years; but since 1975 there have been 16 consecutive deficits.

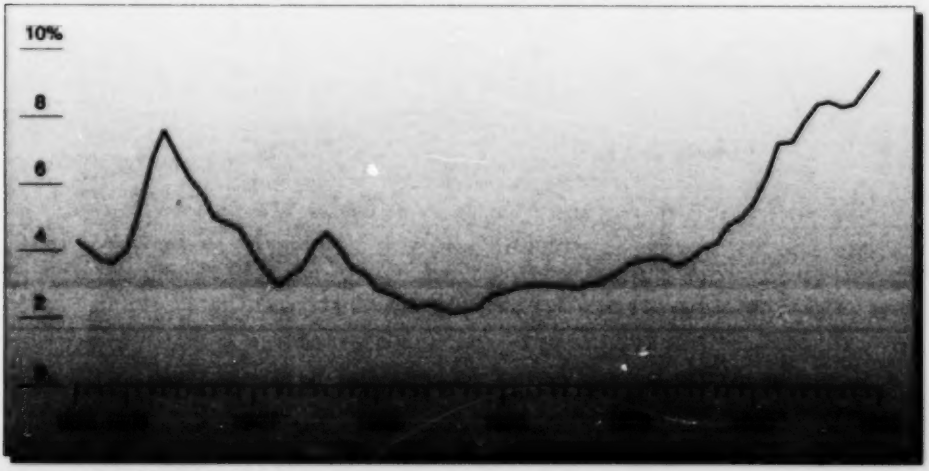
6. Surpluses and deficits as a per cent of GDP, 1926-90
Federal, provincial, and local



Source National Accounts.

Debt service charges as a percentage of total government spending are rising once again.

7. Interest paid on the public debt as a per cent of GDP, 1926-90

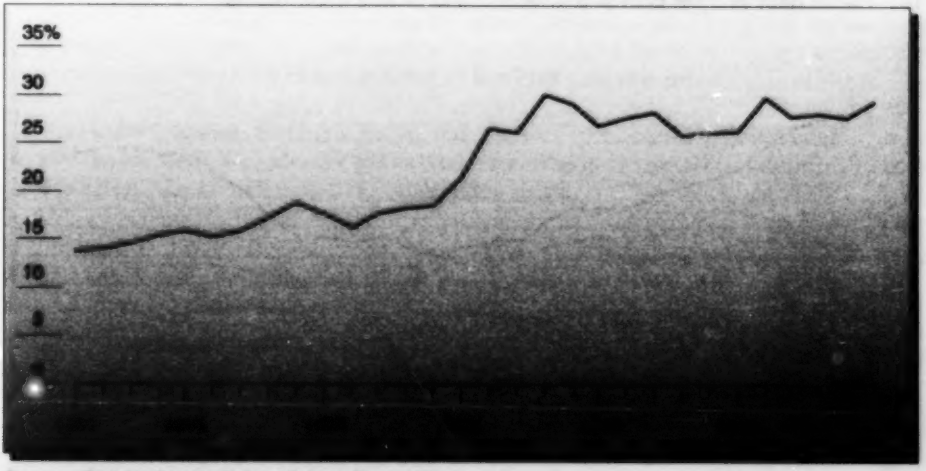


Source National Accounts.

The amount of public debt interest depends on the size of the debt and on the interest rate. Unlike the current debt, war time debts were incurred at relatively low interest rates.

Canada is a major capital importer. Provincial and local governments have always placed bonds abroad. The federal government also began to borrow abroad during the 1970s.

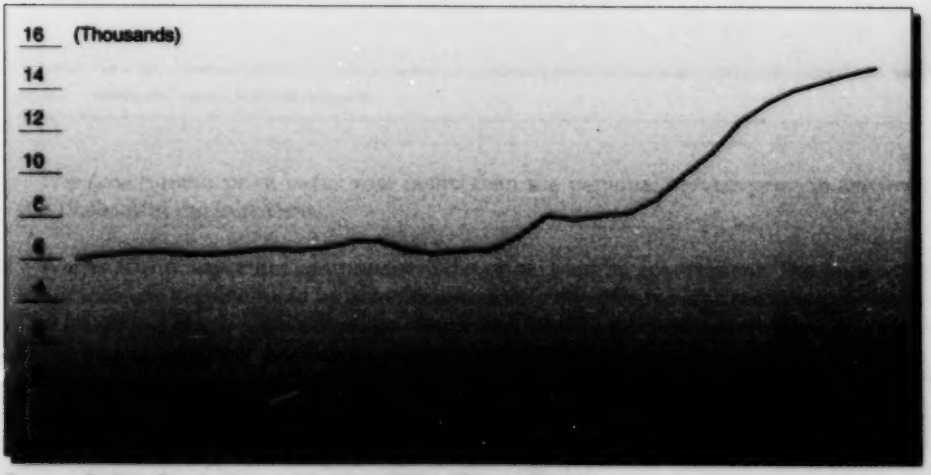
8. Government foreign debt as a per cent of total government debt, 1961-90



SOURCE Statistics Canada, National Balance Sheet, 13-214.

With government debt growing faster than the economy and the population, government debt per capita is rising as well.

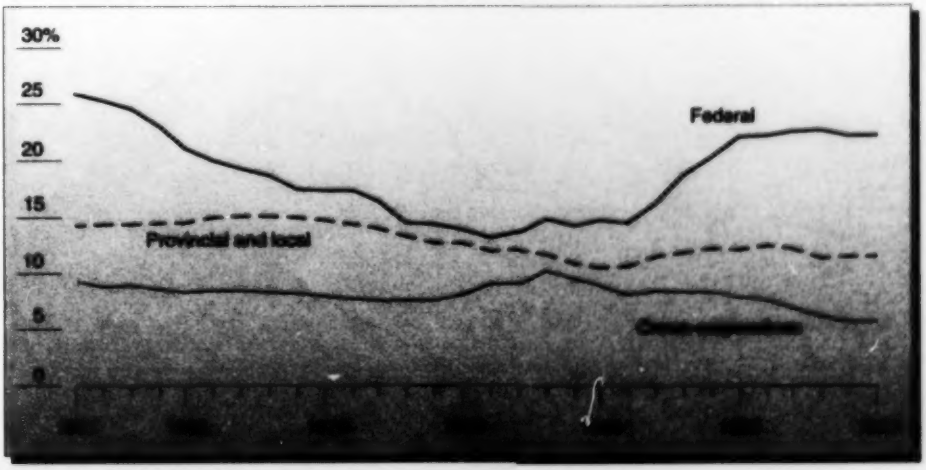
9. Government debt per capita, 1961-90
Federal, provincial, and local debt in 1986 dollars per capita



SOURCE Statistics Canada, National Accounts and National Balance Sheet.

Private sector debt has also increased. For that reason, the rise in the ratio of public to total public and private debt was smaller than the rise in the ratio of public debt to GDP.

10. Public debt as a per cent of total public and private debt, 1961-90



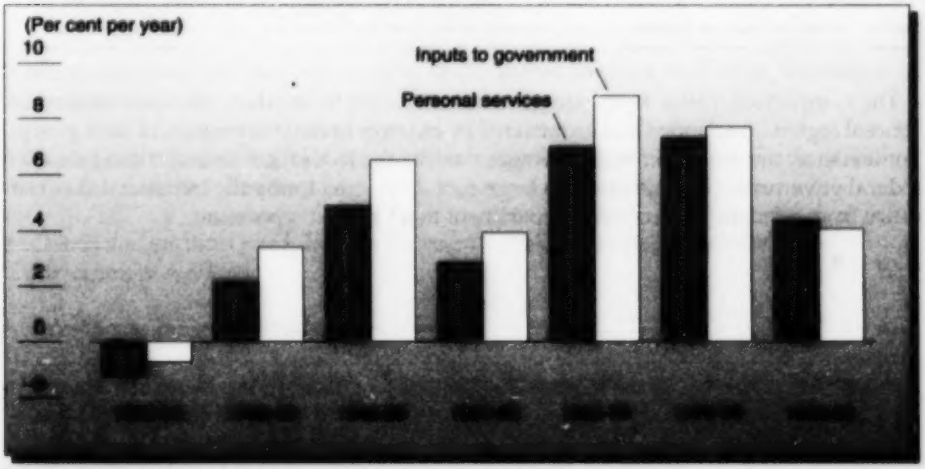
Source National Balance Sheet.

III PRICES TO GOVERNMENT

This section presents graphs showing the growth of prices paid by governments over the years. These figures are compared to price changes in the economy as a whole. Unless otherwise stated, the charts portray all levels of government.

The index of prices paid for goods and services consumed by government can be compared to the price index for private services used in personal consumption. In both indices, the largest component is wages and salaries.

11. Annual change in government input prices compared to prices of services in personal consumption, 1926-90



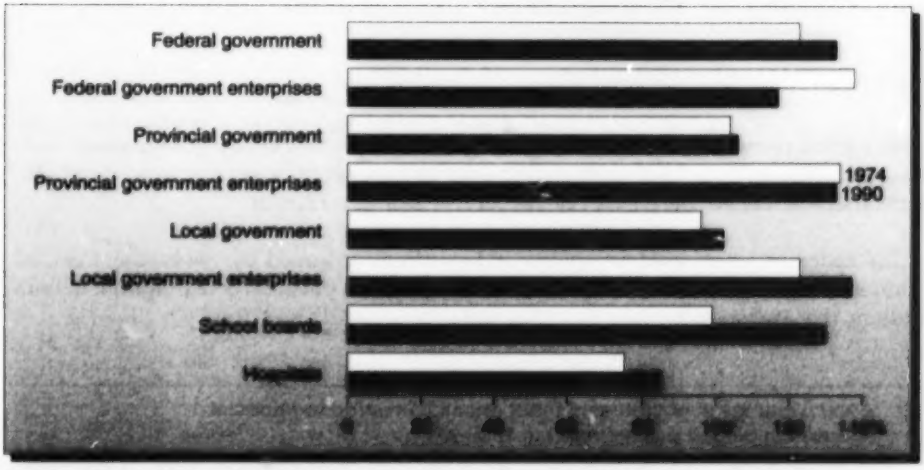
Source: Statistics Canada, National Accounts.

The government price index rose faster than the personal service price index from the 1930s until the mid-1980s.

Wages are an important component of the prices paid by government. The somewhat lesser increase in prices paid by government since 1986 reflects wage restraint programs. The following graph shows average wages and salaries paid by government as a ratio of the average wage and salary income of other workers.[3]

3 Federal government wages include military pay and allowances.

12. Government wages as a per cent of the average civilian wage, 1974 and 1990



Source Based on data from Statistics Canada. Territorial governments are included with the provincial government.

The comparison varies from one government sector to another. The data inevitably conceal regional variations and are affected by changes in the composition of each group. For instance, the change in relative wages paid by the federal government compared to federal government enterprises is in large part accounted for by the transfer of the post office from a federal government department to a Crown corporation.

IV GOVERNING INSTRUMENTS

Government can achieve its objectives in many ways:

A. Operate a program from its own offices;

B. Make direct payments to individuals and business;

C. Set up a Crown corporation or agency;

D. Offer incentives to do what government wants done (direct grants, loan guarantees and low interest financing);

E. Regulate the activities of business and individuals;

F. Provide tax incentives (make "tax expenditures").

When government chooses one or more of the above, they are said to be choosing a governing instrument.

From an accounting standpoint, the choice of governing instrument can be described as one or more of the following:

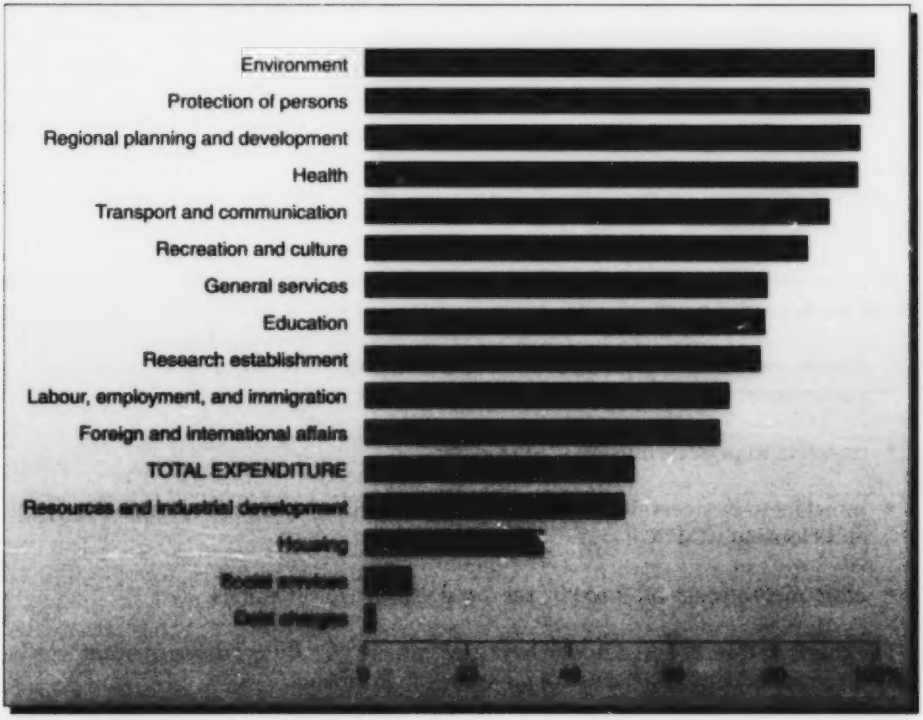
- Goods and services used directly by government, including wages and salaries of government workers;
- transfers to persons outside government;
- transfers to business, including Crown corporations, such as Canadian Mortgage and Housing (CMHC); and
- other methods not captured by the foregoing broad categories.

The charts in this section describe how government gets things done; in other words, they illustrate or compare the use of governing instruments.

A. Program Operation

Taken as a whole, about one-half of government expenditure is for goods and services used directly by government in the operation of its own programs. For example, health and education involve expenditures on goods and services, that is wages and salaries of government employees plus materials and services purchased from private sector suppliers. In education, 78 per cent of program spending occurs directly in public schools; the remaining 22 per cent is provided in transfers to universities and other educational institutions.

13. Expenditure on goods and services as a per cent of total program expenditure, 1987

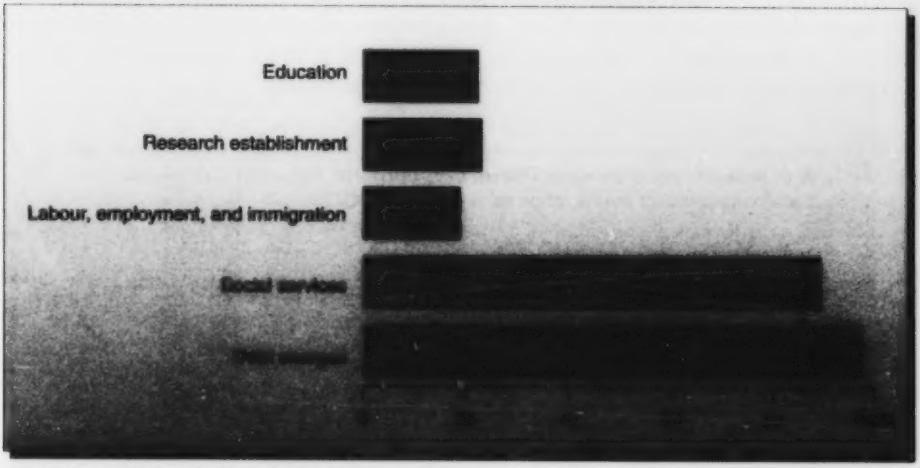


SOURCE Statistics Canada, Consolidated Government Finance.

B. Payments to Individuals and Business

Social assistance, on the other hand, is primarily transfers to persons. Transfers to persons include also support of universities and other non-profit institutions as well as interest on the public debt. The part of total program cost not accounted for as a transfer is represented mostly by administrative expenditures on goods and services already dealt with above.

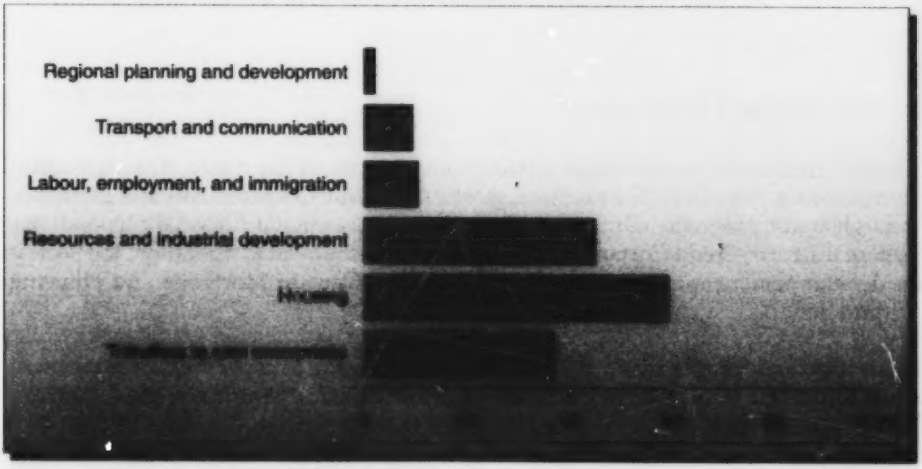
14. Transfers to persons as a per cent of program expenditure, 1987



SOURCE Statistics Canada, Consolidated Government Finance.

Transfers to business include assistance to Crown corporations such as CMHC which, in turn, assists homeowners and renters.

15. Transfers to business as a per cent of program expenditure, 1987

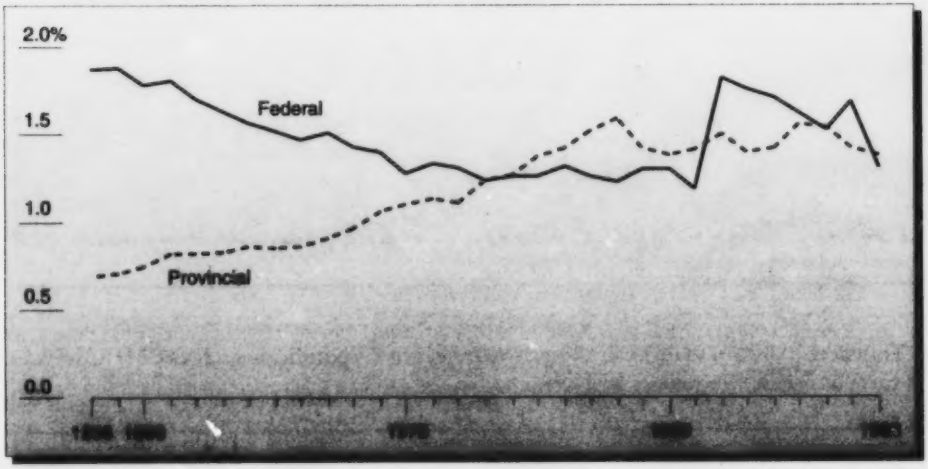


SOURCE Statistics Canada, Consolidated Government Finance.

C. Crown Corporations

Provincial Crown corporations have grown while federal crown corporations have declined in size relative to the economy. An exception to this occurred in 1982 when Canada Post was converted from a department to a corporation.

16. Growth of federal and provincial Crown corporations, 1958-88
Wages and salaries plus depreciation as a per cent of GDP



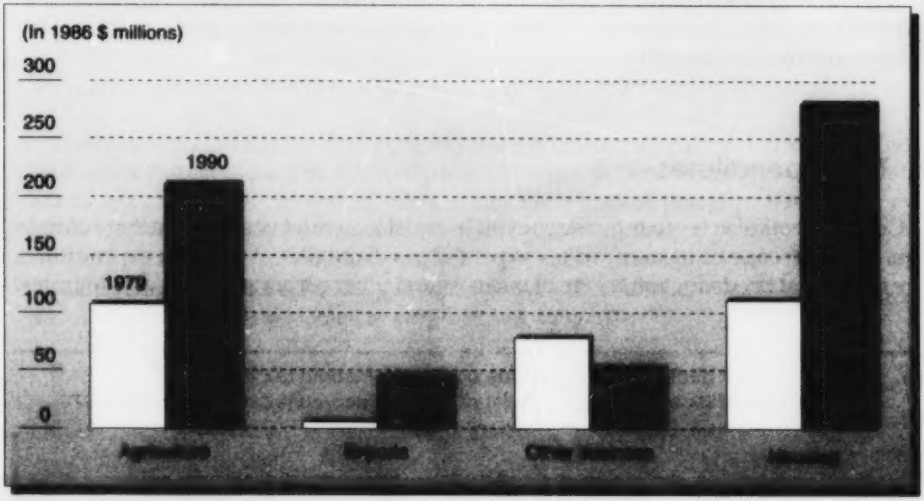
SOURCE Statistics Canada.

D. Low Interest Financing

Governments can also encourage certain economic activities by means other than direct grants and tax incentives. For example, government provides incentives and assistance through credit programs administered by several government financial corporations, such as the Farm Credit Corporation, the Export Development Corporation, the Société de développement industriel du Québec, and the Canada Mortgage and Housing Corporation.

The interest rates charged by such corporations often fail to cover the cost of the loans made (interest at which parent governments borrow plus administrative costs and loan losses). The shortfall is equivalent to a subsidy to the borrower. Estimates of such subsidies show increased assistance to agriculture, housing and exports, but less assistance for other business.

17. Subsidies hidden in loans by financial Crown corporations, 1979 and 1990

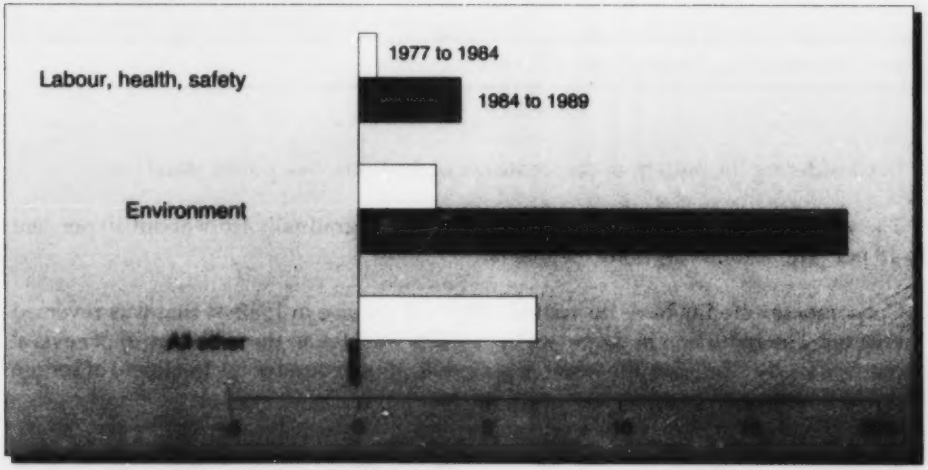


SOURCE Estimates by the Economic Council.

E. Regulation

Government real expenditure on regulatory programs has declined in the latter part of the 1980s. However, real expenditure on health and safety regulation and on environmental regulations has increased significantly in the same period.

18. Growth of federal and provincial government expenditure on regulatory activities, 1977-89
In per cent per year and in constant dollars



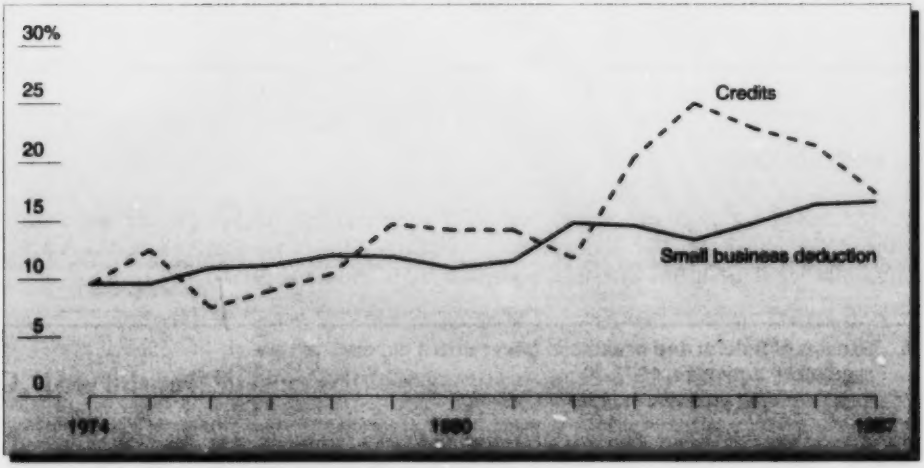
SOURCE Public Accounts, and Stanbury and Thompson.

The above are governments' costs. The private sector's cost of compliance with regulation is not captured by available statistics. Yet these may be significant costs. Of course, there are also significant benefits. Little information is currently available on the overall balance of costs and benefits.

F. Tax Expenditures

Governments also try to influence business decisions with tax measures that result in loss of tax revenue or in so-called tax expenditures. Examples of such tax expenditures are the special tax deduction for small business and other corporate tax credit programs.

19. Small business deduction and various corporate income tax credits, as a per cent of federal plus provincial corporate income tax revenues, 1974-87



SOURCE Statistics Canada, Corporation Taxation Statistics.

In considering the pattern of corporate tax deductions, two points stand out:

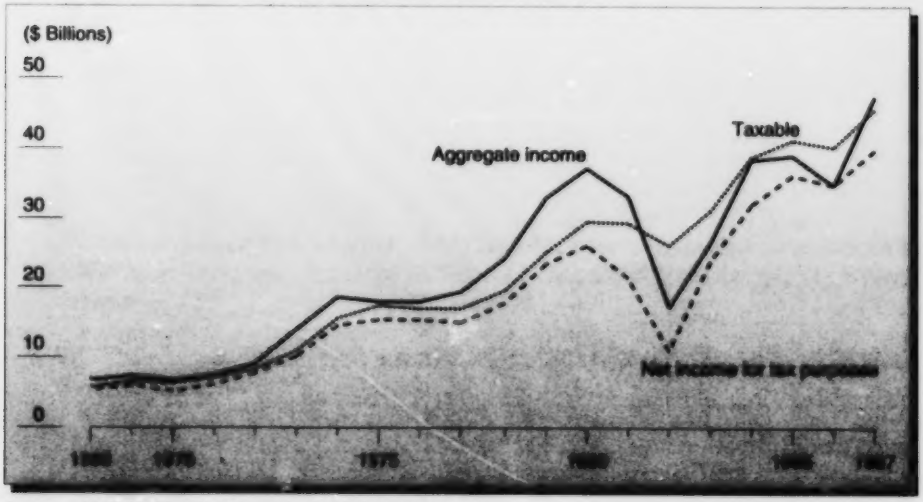
The value of the small business deduction has risen gradually from about 10 per cent to 18 per cent of total corporate income tax.

Corporate tax credits have fluctuated, with a sharp rise in 1982-84 that was reversed thereafter. The reduction in corporate tax credits was due to the withdrawal of several incentives such as the scientific research tax credit, and favourable tax treatment of certain types of financing of mergers and acquisitions.

The tax preference to small business discussed above refers to the rate of tax. Preferences can also relate to the amount of income that is subject to tax (the tax base). This is illustrated by the gap between aggregate income and net income for tax purposes. The gap widened in the late 1970s, reflecting increasing corporate use of tax preferences. The gap was narrowed in the 1980s by changes in tax rules and by recession.

Another aspect of the tax treatment of business concerns treatment of losses. When a business suffers sustained losses, it also loses the tax relief usually provided by offsetting losses against income earned in other years. The effect of this appeared in the early 1980s when the taxable income of corporations exceeded their aggregate income.

20. Income and taxable income of corporations, 1968-87



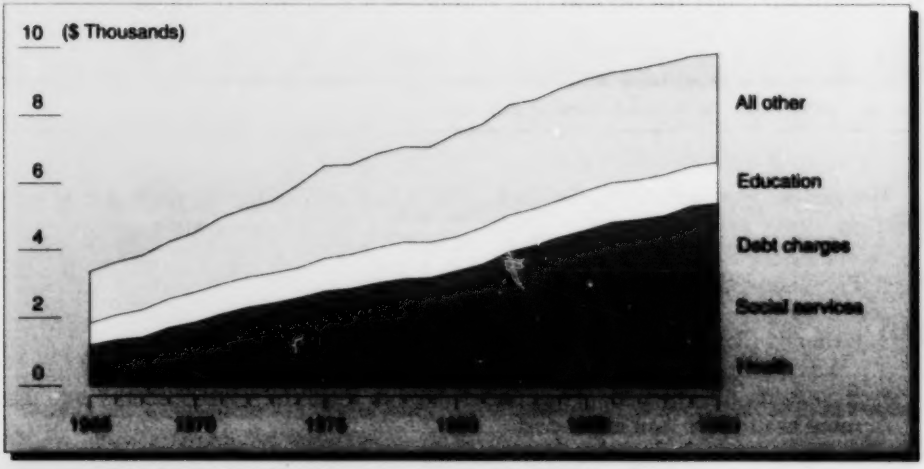
SOURCE Statistics Canada, Corporation Taxation Statistics.

V Health and Welfare Expenditure

The charts in this section describe the patterns of spending in health programs and social services.

Per capita data show that health care, social services and debt service account for most of the growth in government expenditure.

21. Real government outlay per capita, 1966-90
Including federal, provincial, and local outlays at 1986 prices



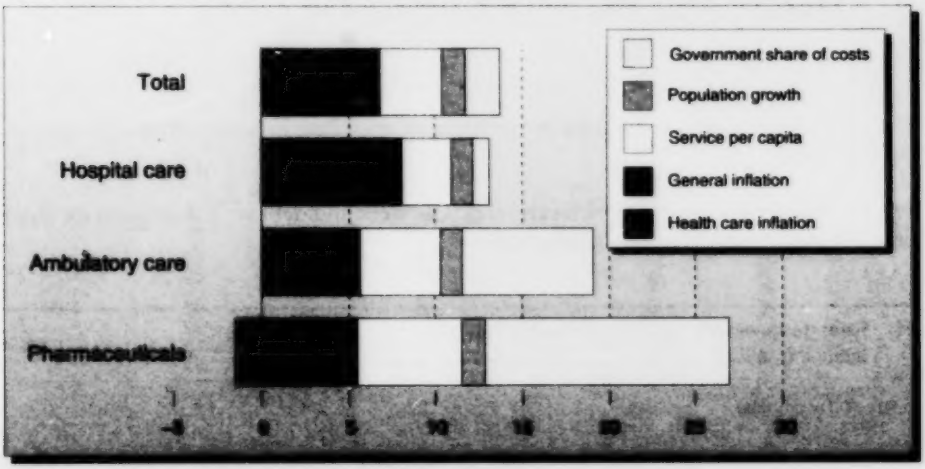
Source: Statistics Canada, Consolidated Government Finance and National Accounts.

Health Care

With the passage of the *Hospital Insurance and Diagnostic Services Act, 1957*, governments assumed a larger share of hospital costs. After 1960, that change made the government component of hospital expenditure grow faster than total public and private Canadian expenditure on hospital care, but only slightly.

After passage of the *Medical Care Act, 1967*, governments assumed increasing shares of the costs of ambulatory care (e.g., payment for physician visits) and pharmaceuticals. For that reason, the government component of health expenditure grew significantly faster than total health care expenditure (government and private).

22. Sources of annual percentage growth in government health expenditure, 1960-87



SOURCE OECD Health Care Systems in Transition, Paris, 1990.

The annual growth in government health care spending can be attributed to five factors.

- Population growth
- General inflation
- Increased utilization or service per capita – or the tendency of Canadians to use more health care than in the past
- Additional inflation of health care costs over and above general inflation. This has added to hospital costs but actually reduced pharmaceutical costs.

Finally, government expenditure on health care rises faster than the total because of the:

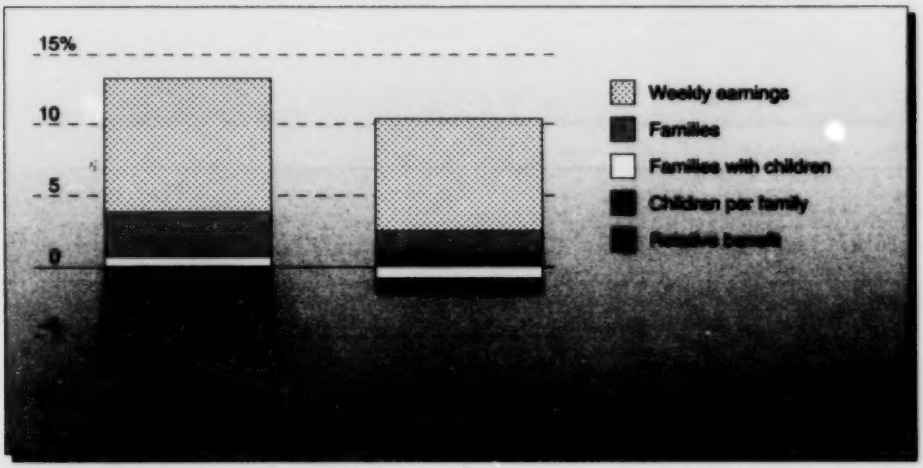
- Expanded role for government financing in total health expenditure.

The 1960-87 period considered here is one where it was the policy of government to assume increasing responsibility for the health care expenditures of individuals. As a result, we now have universal government medical insurance and drug benefits for the elderly and for persons on social assistance.

Social Services

Social services comprise social welfare and social security programs. Social welfare assistance includes outlays for the needy, aged, blind, and disabled plus outlays related to the agencies concerned and various tax credits and rebates granted to offset unwelcome effects of taxation. Social security spending includes the Old Age Security pension, unemployment insurance benefits, workmen's compensation, family allowances and veterans' benefits plus the corresponding administration costs. The next two charts show the factors that explain the growth of two of these programs – family allowances and the old age pension.

23. Sources of annual percentage growth in family allowance payments, 1947-90



Source Based on data from Statistics Canada.

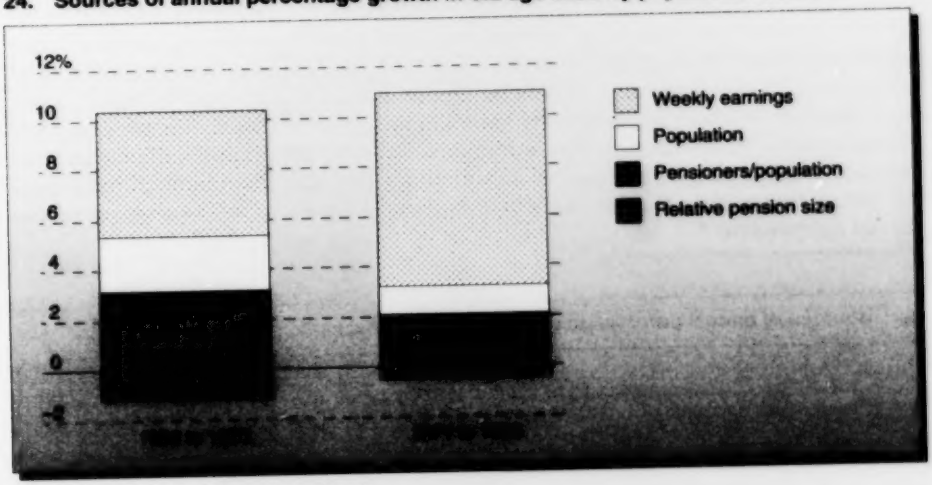
Family Allowance eligibility rules and the structure of benefits per child were changed in 1973. Indexation was introduced at the same time.

Demographic change – fewer families having children and those families having fewer children – slowed the growth of the Family Allowance program after 1973. Also, benefits ran slightly ahead of wages after 1973. [4]

Individual OAS pension benefits have not grown as fast as the average weekly wage. However, the impact of demographics on total pension outlays was enhanced by a policy decision to gradually reduce the qualifying age from 70 to 65 years between 1966 and 1970.

4 Since 1988, family allowance benefits for families with earnings abouve $50,000 have been taxed. The effect of this is not shown in the chart.

24. Sources of annual percentage growth in old age security payments, 1952-90

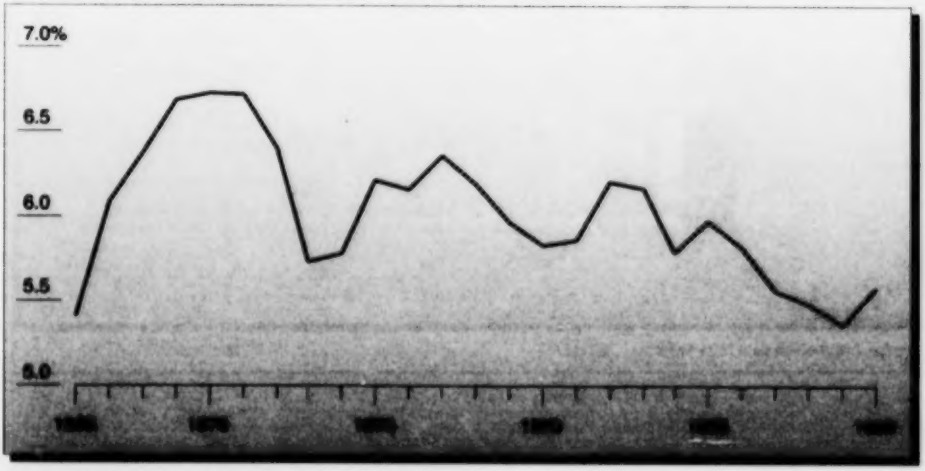


SOURCE Based on data from Statistics Canada.

VI EDUCATION

These charts describe education spending in Canada.[5] Education spending, as a share of GDP, has returned to the level of 25 years ago.

25. Education expenditure as a per cent of GDP, 1966-90



SOURCE National Accounts and Financial Management System.

Elementary and secondary education expenditure growth is affected by the number of children attending school and the education cost per child, that is, the cost of teaching, busing, administration and capital resources.

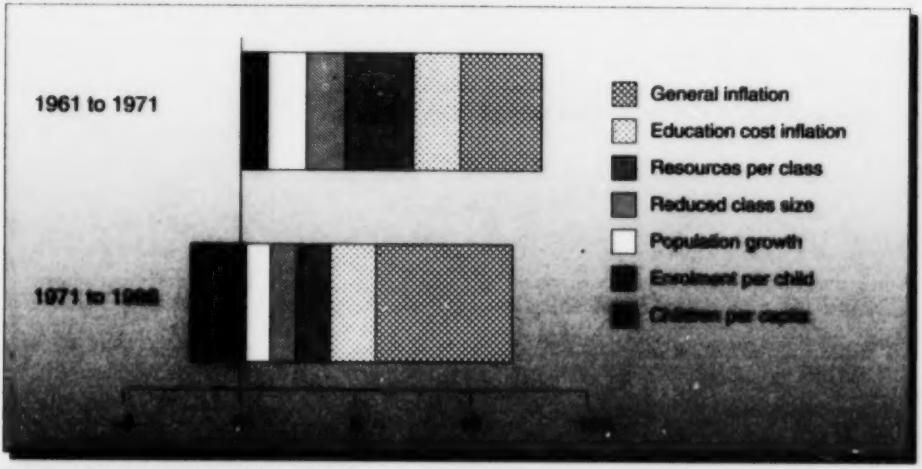
Four observations stand out:

- The growth in education costs has been slowed by reductions in the rates of population growth and in the number of children per capita.
- Education costs per pupil have increased by class size reduction and enrichment of educational resources per class. These factors diminished in importance after 1971.
- Increased education participation rates caused costs per child to rise slightly faster than per pupil costs. This factor also diminished in importance after 1971.

5 Education expenditures include public, primary, and secondary education expenditures plus grants to universities and other postsecondary education institutions.

- Prices paid for educational services (for example, teachers' salaries) continue to rise at a faster rate than prices in general. This factor dominates.

26. Sources of annual percentage growth in government expenditure on elementary and secondary education, 1961-88



SOURCE Based on data from Statistics Canada.

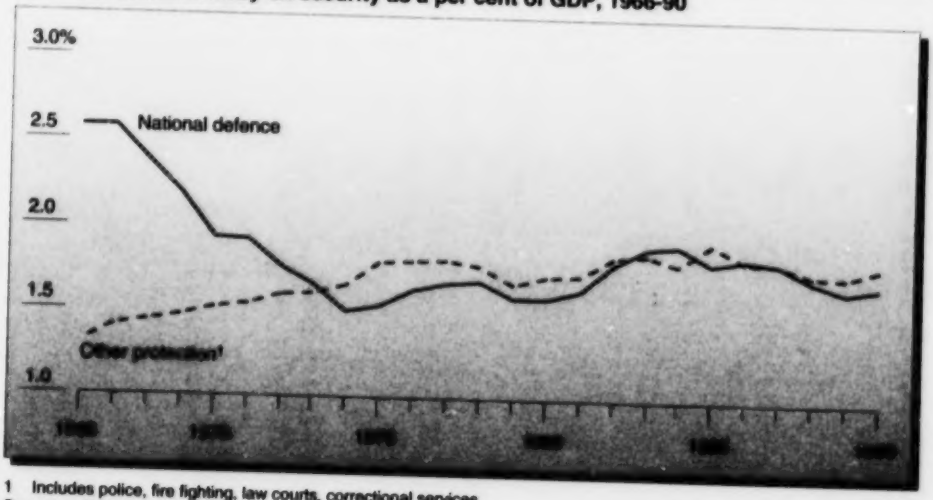
VII National Security and Government Overhead

This section presents data on protection of property and people and on general government services.

Expenditures on security or protection include: National defence, police, fire fighting, law courts, correctional services, and regulatory measures not elsewhere allocated.

Although classic functions of government, spending on protection of property and persons is a small share of total spending in modern government (under 8 per cent). However, it has maintained a relatively constant relation to the growth of national income in the past 15 years.

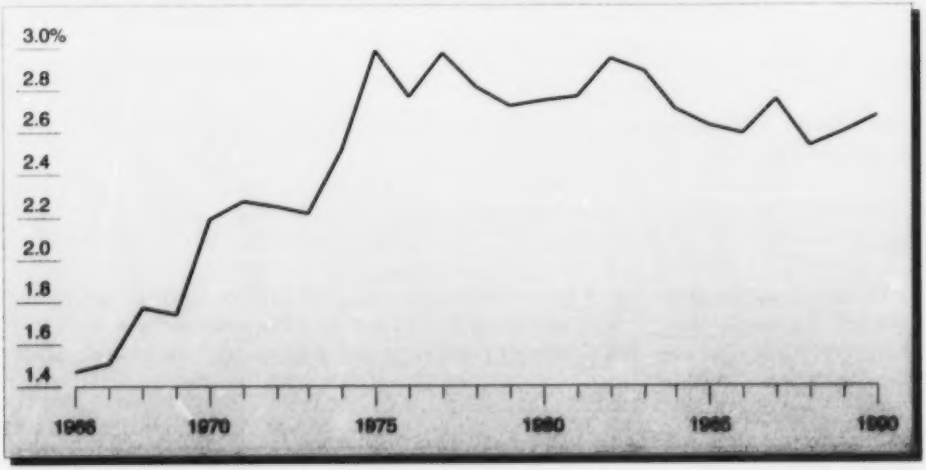
27. Government outlay on security as a per cent of GDP, 1966-90



1 Includes police, fire fighting, law courts, correctional services.
Source National Accounts and Financial Management System.

Expenditures on general government services include those of the Governor General, the lieutenant-governors, Parliament, the legislatures, local councils, and central government departments, such as federal and provincial departments of finance and auditors general. Also included are government contributions to the government pension plans of civil servants in all departments. Growth of the general services category was concentrated in the years before 1975.

28. Government outlay on general services as a per cent of GDP, 1966-90



NOTE Includes Governor General, lieutenant-governors, Parliament, legislatures, local councils, and central departments.
SOURCE National Accounts and Financial Management System.

VIII Government Capital Spending

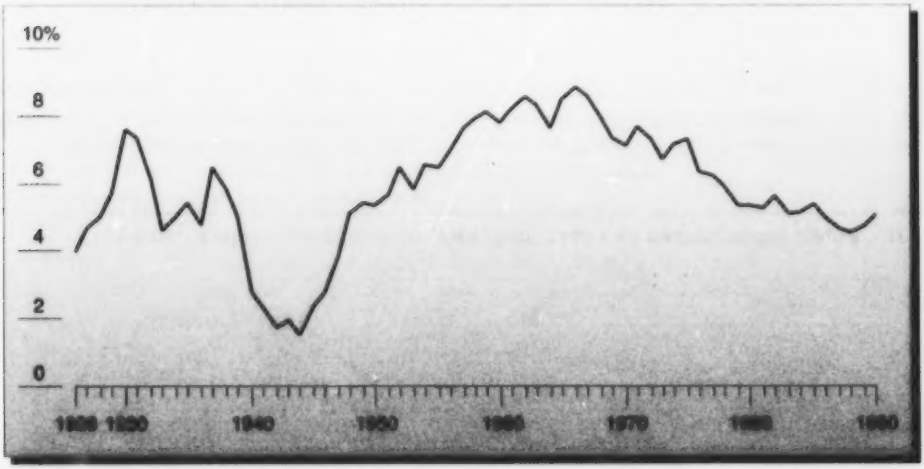
This section describes government capital expenditure, primarily for bridges, highways, airports, veterans' hospitals and schools.

The numbers generally refer to gross investment flows – that is, the annual change in the capital stock without deduction for depreciation – unless the chart explicitly refers to capital stocks, or, in other words, the value of accumulated capital investment.[6]

Certain observations stand out:

Government investment is currently less than 5 per cent of GDP and substantially lower than in the 1950s and 1960s.

29. Gross investment by government as a per cent of GDP, 1926-90

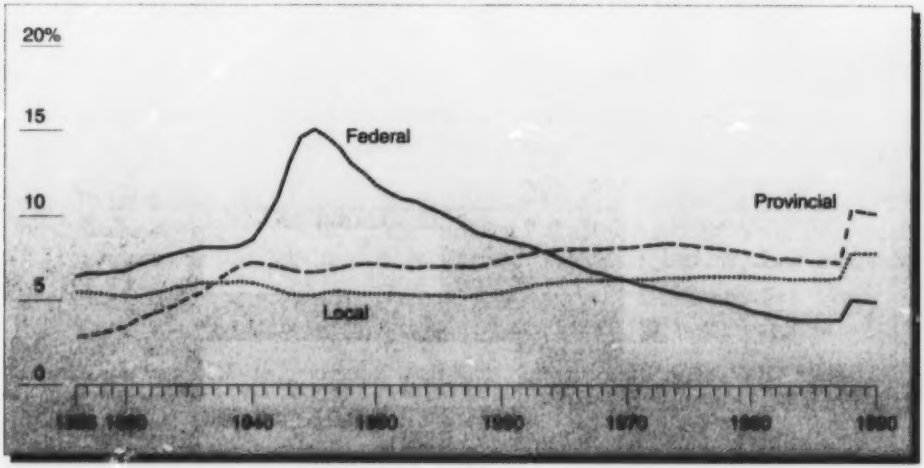


Source National Accounts, data excludes investment by government business enterprises.

Compared to private non-residential capital stocks, federal capital peaked in 1945, provincial capital levelled off in 1973, and local government capital has remained relatively stable.

6 Capital stocks are estimated by the perpetual inventory method. The capital stock charts are affected by a change in the statistical base around 1987.

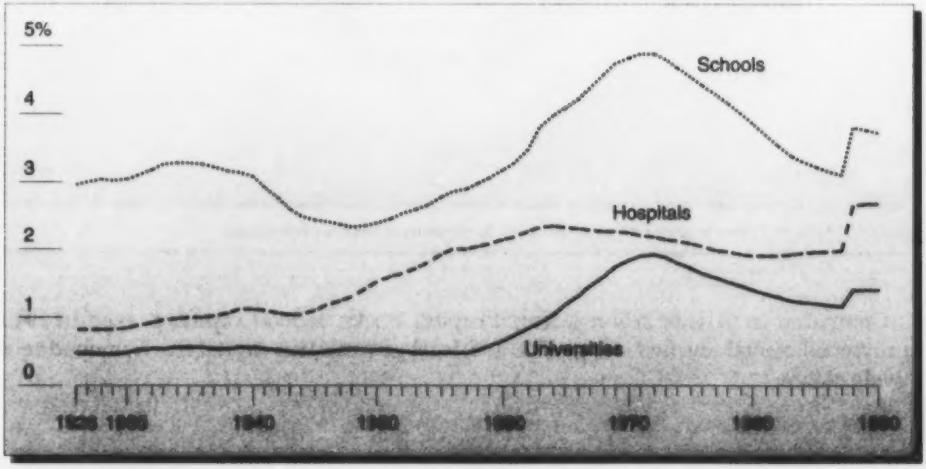
30. Government capital stock as a per cent of total, non-residential capital, 1926-90



NOTE Data for 1988, 1989, and 1990 based on new benchmarks.
SOURCE Statistics Canada.

Also relative to private, non-residential capital, the capital stock of hospitals peaked in 1964 or shortly before the end of the postwar baby boom. The capital stocks of schools and universities peaked in 1972, when the last baby-boomers entered grade one.

31. Public capital stocks as a per cent of total, non-residential capital, 1926-90



SOURCE Statistics Canada.

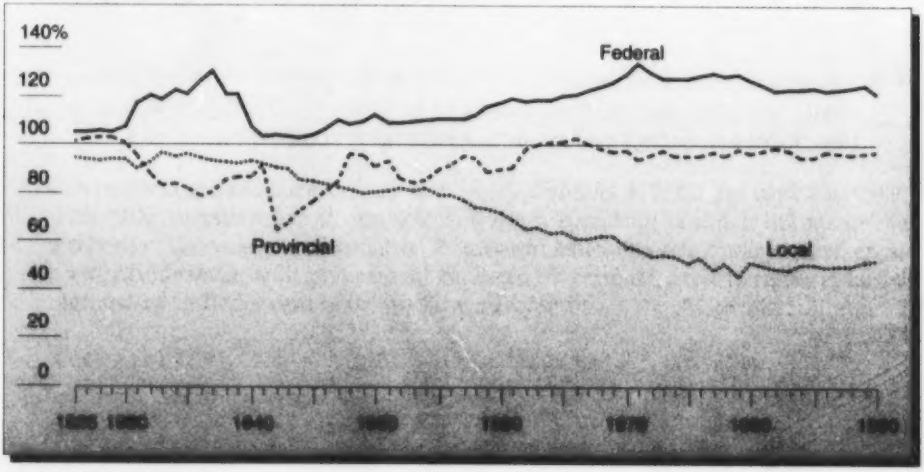
IX Level of Government

There are federal, provincial and local government programs. The charts in this section compare program expenditure in broad categories among these levels of government. Note that the level of government constitutionally responsible for delivery of a program is not necessarily the source of funding for that activity. Some programs are funded by intergovernmental transfers. Canada's system of intergovernmental transfers was initiated after World War II, following recommendations based in part on the experience of the Great Depression. The system continues to evolve.

Certain observations stand out:

- Expenditure can be financed by own-source funds (including borrowing) and by transfers from other governments. The federal government makes transfers to the provinces; the provinces make transfers to local governments. Thus federal receipts exceed expenditure whereas local receipts from own sources are less than local expenditure.

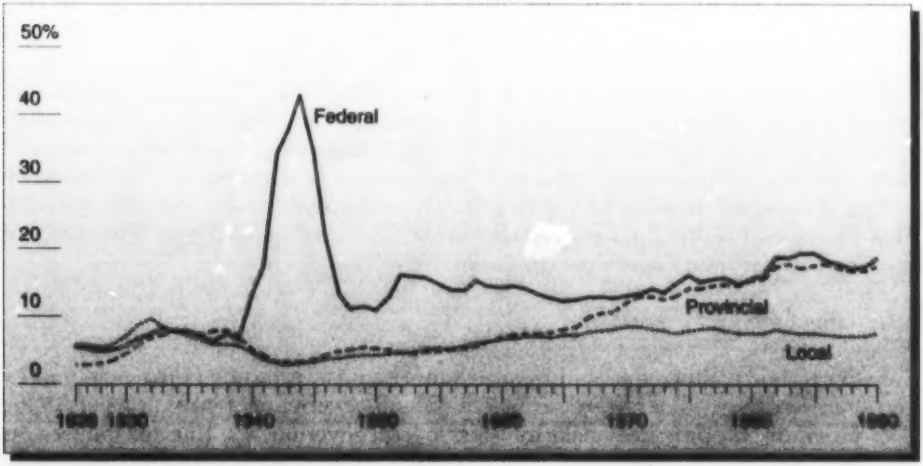
32. Own-source revenue as a per cent of outlay on own programs excluding intergovernment transfers, 1926-90
Tax and non-tax revenue plus borrowing divided by expenditure, excluding intergovernment transfers



Source National Accounts.

- Provincial expenditure grew faster than federal and local expenditure after 1952; provincial outlays are now nearly equal to the federal ones.

33. Government outlay as a per cent of GDP, 1926-90
Current and capital expenditure excluding intergovernment transfers



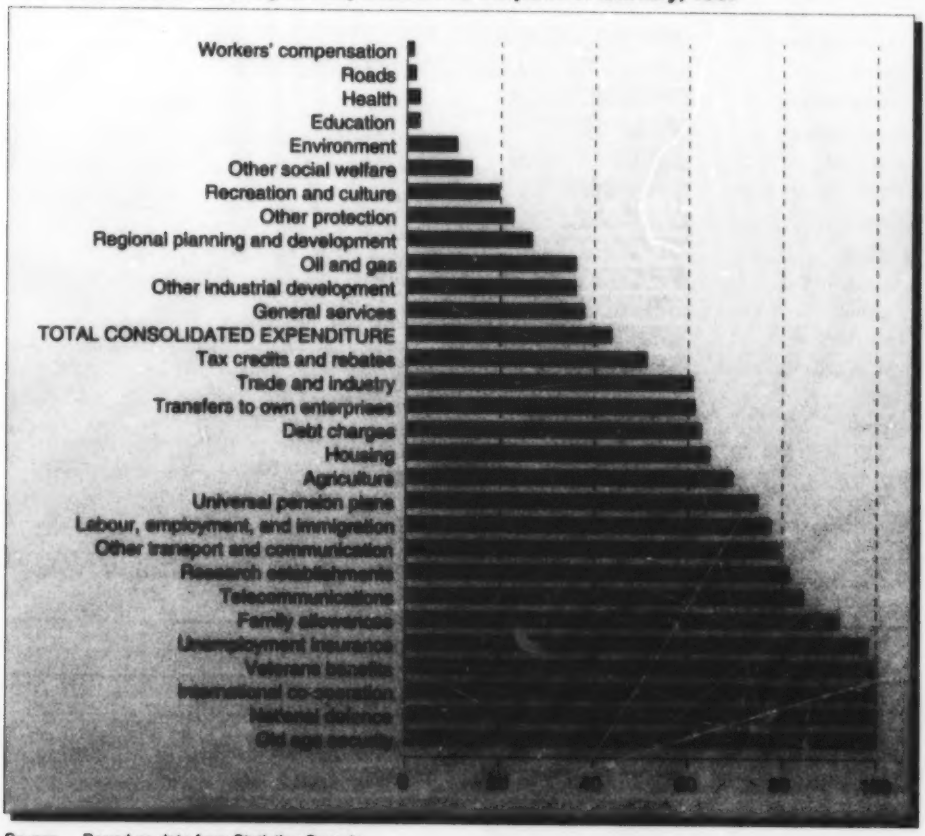
SOURCE National Accounts.

- Direct spending on program delivery generally follows the constitutional boundaries. The federal share of total spending is relatively large in areas of federal responsibility, such as defence and international cooperation. It is low in areas of provincial responsibility such as roads, health and education.

- The data in the chart below show the federal share of spending at the point of service delivery.[7] The chart does not show federal funding of shared cost programs (such as health care, welfare, and postsecondary education), which amount to as much as 50 per cent of total outlay. Thus, citizens pay taxes to the federal government and receive services from provincial governments. This is one way of ensuring that citizens in all regions have access to roughly comparable services.

7 Provincial and local shares are measured from the right of the chart by whatever is necessary to complete 100 per cent of expenditure.

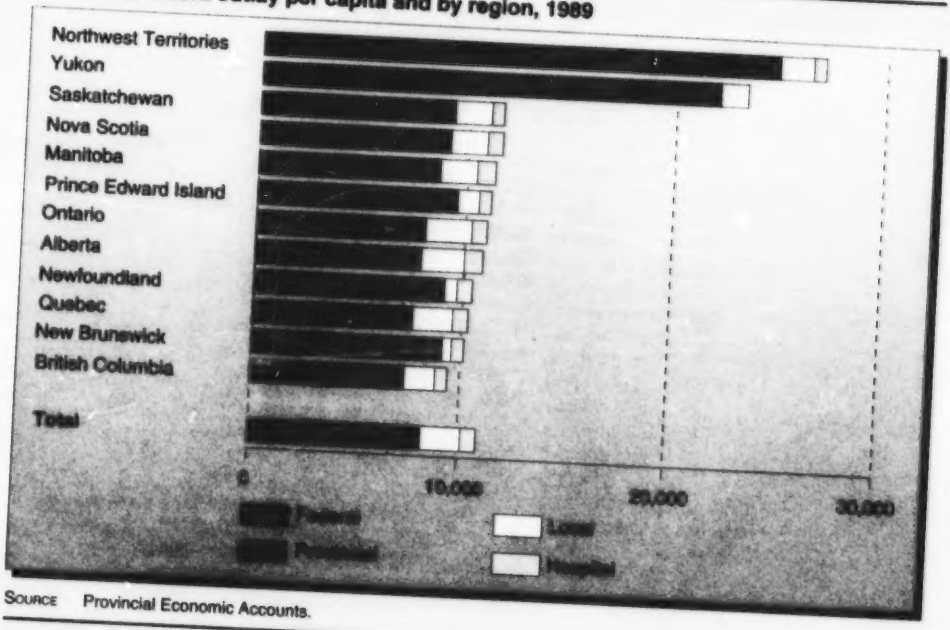
34. Federal share of program expenditure at the point of delivery, 1987



SOURCE Based on data from Statistics Canada.

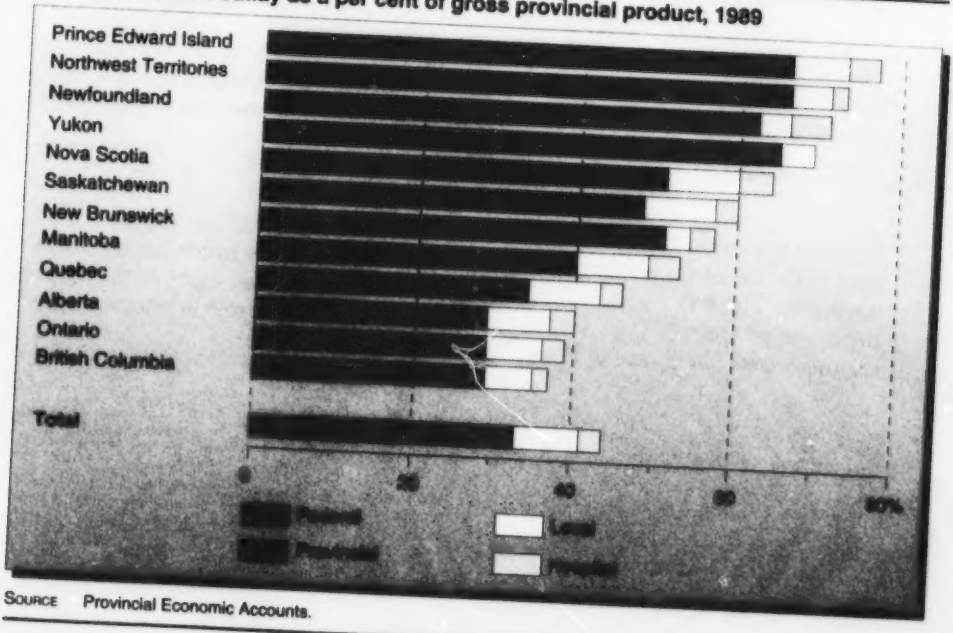
- Government expenditure per capita averaged almost $11,000 per capita in 1989, with little variation across provinces, though spending is much higher in the territories. There is wider variation in government outlay as a per cent of gross provincial product, with government playing a preponderant role in resource-based regions, up to 77 per cent in Prince Edward Island.

35. Government outlay per capita and by region, 1989



SOURCE Provincial Economic Accounts.

36. Government outlay as a per cent of gross provincial product, 1989

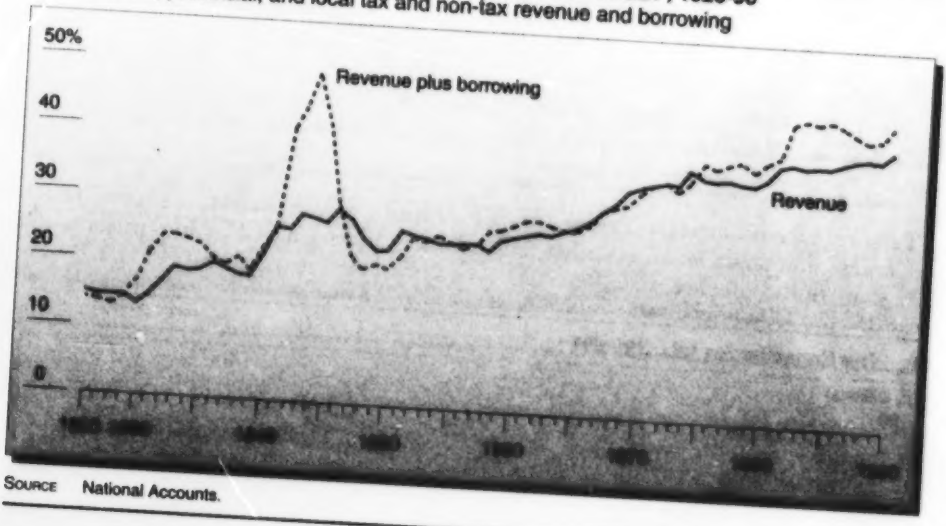


SOURCE Provincial Economic Accounts.

X TAXES

The charts in this section describe data on Canada's tax system. As government expenditure has grown, so government revenue plus borrowing has been an increasing share of gross domestic product in the postwar years.

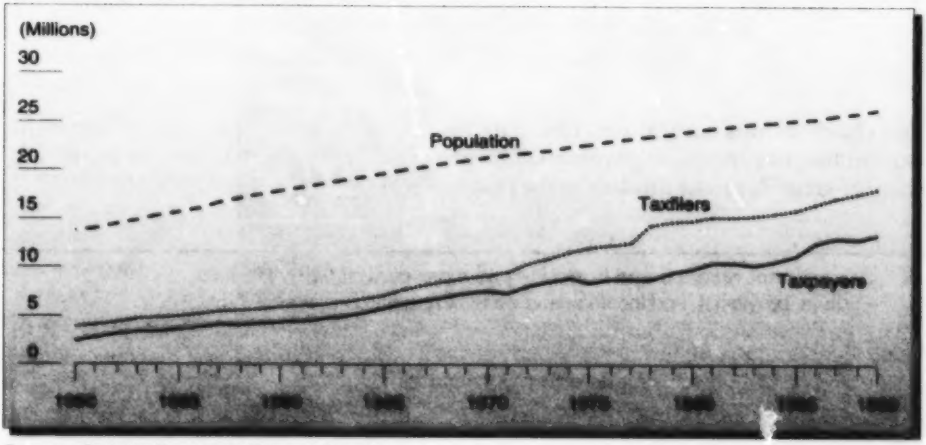
37. Government revenue and borrowing as a per cent of GDP, 1926-90
Federal, provincial, and local tax and non-tax revenue and borrowing



SOURCE National Accounts.

Personal income taxfilers have increased in number relative to the population. In part, this is because of increasing labour force participation of women. However, not all tax-filers pay tax; some have losses, others file to benefit from credits. The introduction of refundable child tax credits in 1978 also increased the number of tax filers.

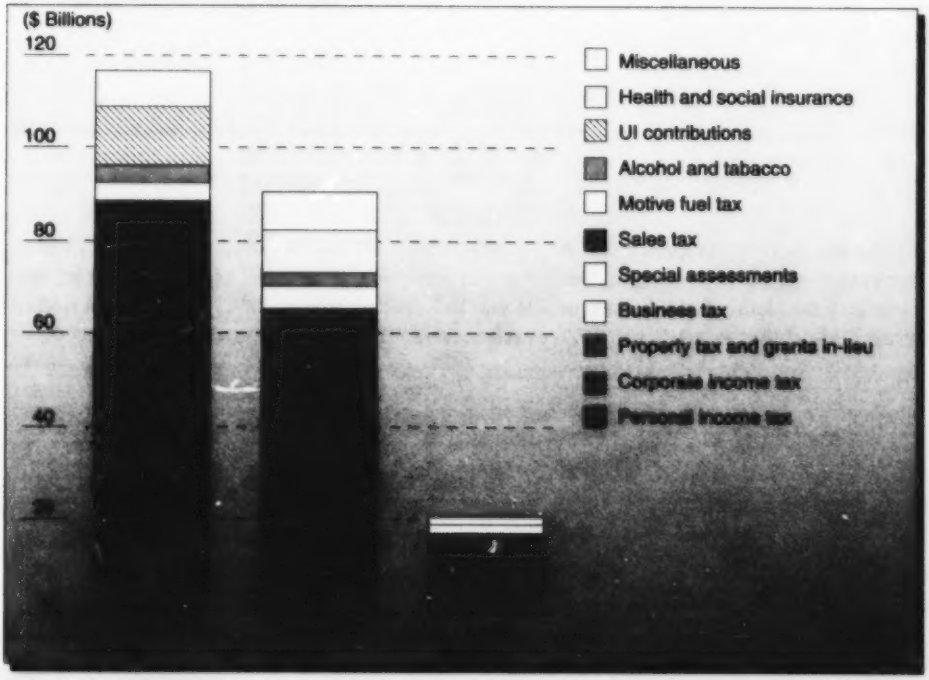
38. Taxpayer population, 1950-89



SOURCE Statistics Canada and Revenue Canada.

Personal income tax is the largest source of federal and provincial tax revenue. Local government imposes few taxes other than property taxes. Chart 39 shows major taxes as a share of the total tax.

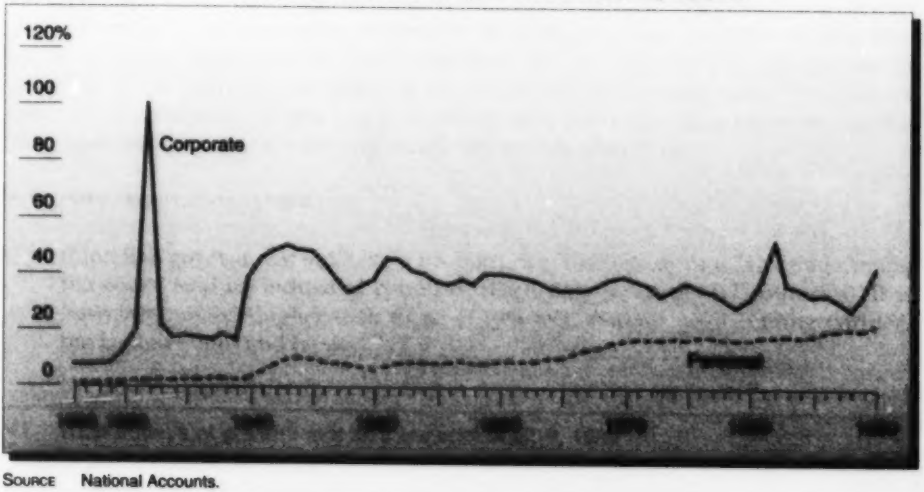
39. The Canadian tax mix, 1990/91



SOURCE Statistics Canada.

Personal income tax and income-related social insurance contributions are rising as a per cent of personal income. Corporate tax payments as a per cent of corporate income fluctuate at a higher level.

40. Personal and corporate income tax as a per cent of income, 1926-90



SOURCE National Accounts.

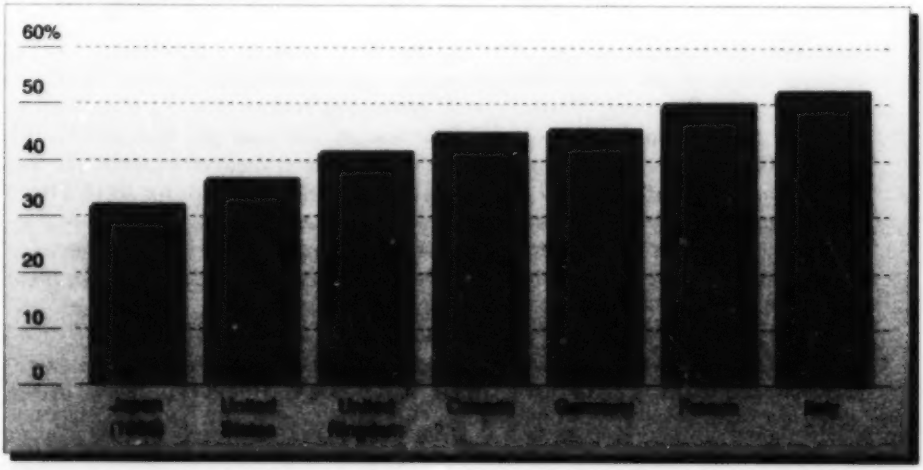
XI International Comparisons

International comparisons are particularly hazardous because different countries have different ways of delivering public services. Accordingly, the expenditures being compared are not identical from country to country. Nor are these statistics an accurate description of the role of government in each economy, for reasons stated above in the note on interpretation. Where one government may use a spending program, another may use a regulation or tax expenditure to achieve its objectives.

Certain observations stand out:

- Canadian government outlay as a proportion of national income is average among the seven leading industrial countries (Group of Seven or G-7 countries). It is, however, notably higher than those of two of Canada's major trading partners, the United States and Japan.

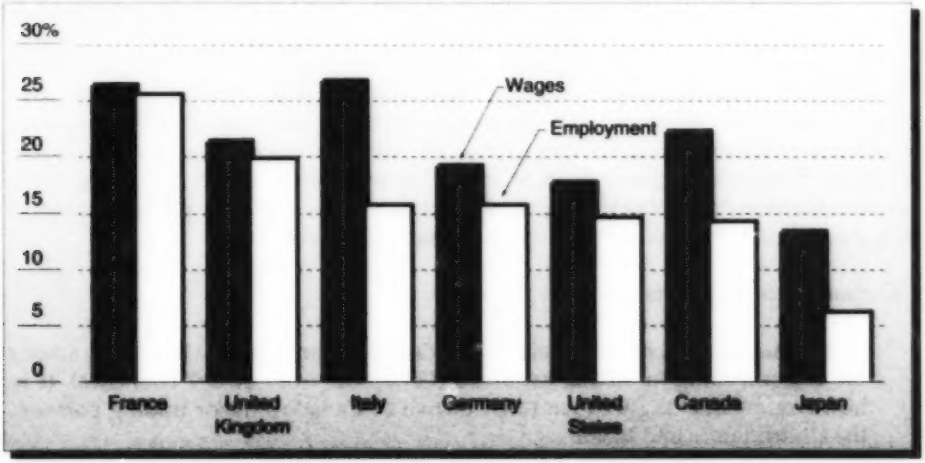
41. Total outlays of government as a per cent of GDP, 1989



Source OECD *Economic Outlook*, December 1991.

- Canadian government outlays on public sector wages as a proportion of the total national wage bill ranks third among leading industrial (G-7) countries.

42. Wages and employment in general government as a per cent of national totals, 1989

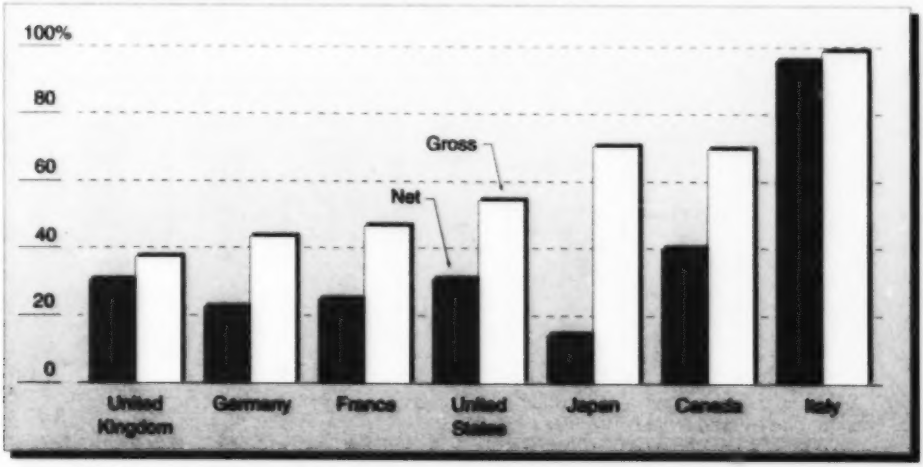


SOURCE OECD National Accounts, vol. II, 1991, and Statistics Canada, U.S. 1989 data from Survey of Current Business, France 1987 from UN National Accounts.

- Canadian government employment, on the other hand, as a percentage of total national employment ranks sixth among leading industrial (G-7) countries. However, varying allocations of functions to general government make it difficult to compare government wage costs across countries. For example, National Health Service (NHS) doctors in the United Kingdom are government employees whereas Canadian doctors, although receiving most of their income on fee for service from government, are considered self-employed. Canadian postal workers were considered government workers until 1982 when the postal service was transferred to a government business enterprise. U.S. postal workers are included in government employment.

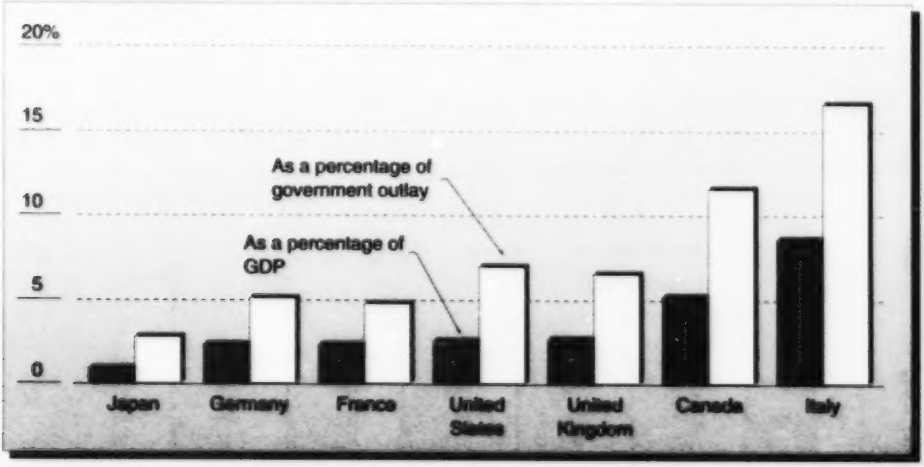
- Canadian government debt (whether gross or net) as a proportion of national income substantially exceeds that of other major industrial (G-7) countries, except Italy.

43. General government debt as a per cent of GDP, 1989



SOURCE OECD *Economic Outlook*, December 1991.

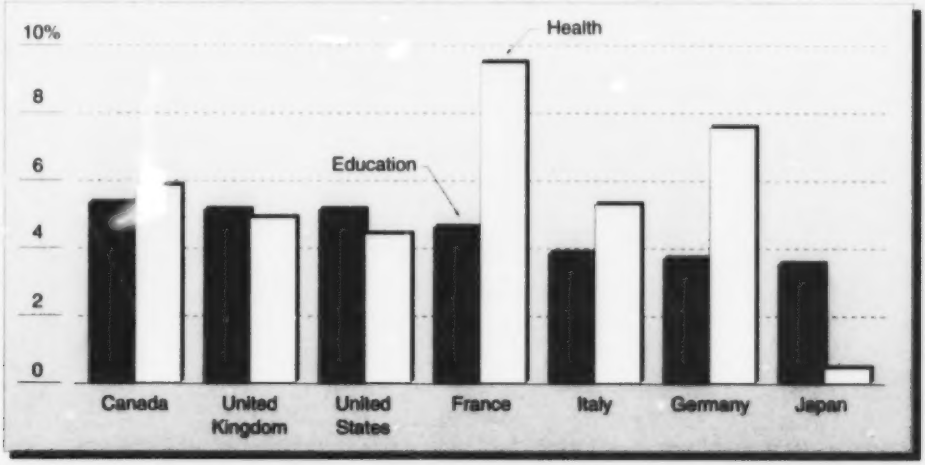
44. General government net interest payments, 1989



SOURCE OECD *Economic Outlook*, December 1991.

- As a proportion to GDP, Canadian government interest payments are twice as high as for our major trading partner, the United States, and substantially exceed those of other leading industrial (G-7) countries, except Italy.

45. Government outlay on education and health as a per cent of GDP, 1988



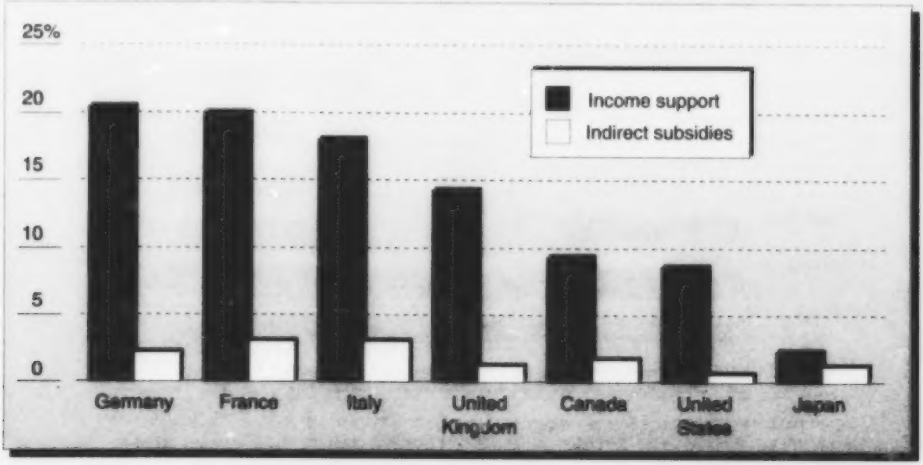
SOURCE IMF Government Financial Statistics Yearbook 1990, OECD National Accounts, 1991, Statistics Canada FMS and NIEA.

In relation to GDP, Canada has the highest government expenditure on education among G-7 countries. Health care spending is third highest. Health contributions by the U.S. government are understated as the deductibility of employer contributions to health care plans in the U.S. adds an unseen contribution.[8]

In relation to GDP, Canadian government expenditure on income security (i.e. social security and welfare including housing and community amenities) is much closer to the United States than to European levels.

8 As for Japan, this and the next graph reflect published figures that show no allocation of transfer payments to the health sector or to income support programs.

46. Income support and subsidies from government as a per cent of GDP, 1988

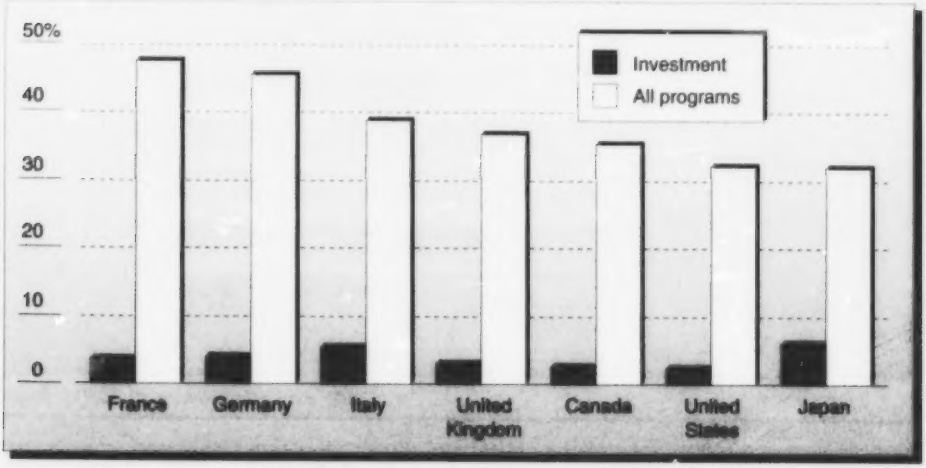


SOURCE IMF Government Financial Statistics Yearbook 1990, OECD National Accounts 1991, Statistics Canada FMS and NIEA.

In relation to GDP, Canadian government expenditure on subsidies to business (including farmers) ranks third, above that of the United States, Japan, and the United Kingdom.

Program expenditure by governments excludes debt interest. Measured by program expenditure in relation to GDP, Canadian government expenditure is below that in most G-7 countries, except Japan and the United States.

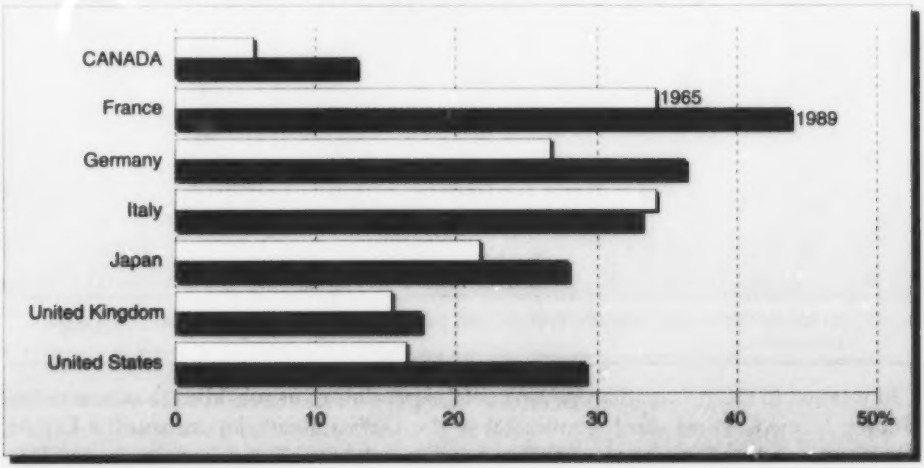
47. Government program expenditure and gross investment as a per cent of GDP, 1988



SOURCE IMF Government Financial Statistics Yearbook 1990, OECD National Accounts 1991, Statistics Canada FMS and NIEA.

Social security taxes such as contributions to universal pension plans, unemployment insurance, government health insurance, and workmen's compensation have increased in most G-7 countries. Canada derives a smaller percentage of tax revenue from this source than any other leading industrial (G-7) country.

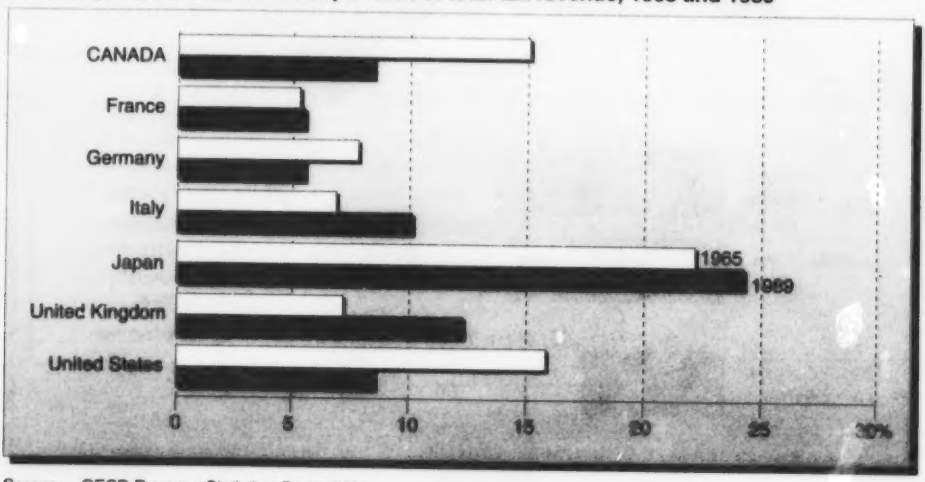
48. Social security taxes as a per cent of total tax revenue, 1965 and 1989



SOURCE OECD Revenue Statistics, Paris, 1991.

In per cent of total tax revenue, Canada derives proportionately more revenue from corporate taxes than France and Germany and about the same as the United States. The fraction of total tax revenue contributed by corporate income taxes declined in the United States, Germany, and Canada between 1965 and 1989.

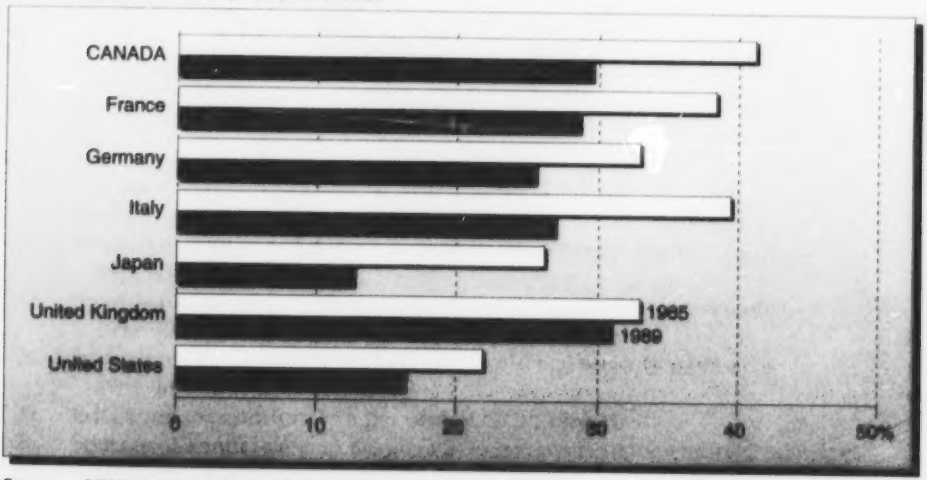
49. Corporate income tax as a per cent of total tax revenue, 1965 and 1989



SOURCE OECD Revenue Statistics, Paris, 1991.

Canada derives proportionately more revenue from taxes on goods and services than any leading industrial country except the United Kingdom.

50. Revenue from taxes on goods and services as a per cent of total tax revenue, 1965 and 1989

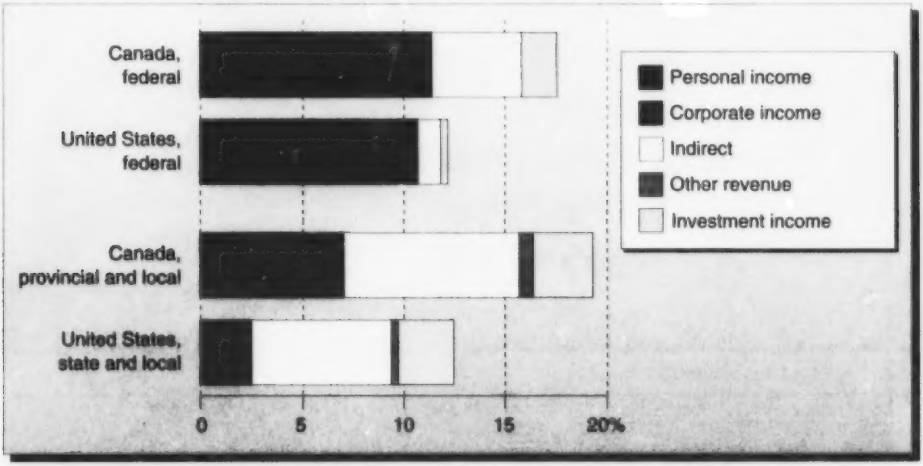


SOURCE OECD Revenue Statistics, Paris, 1991.

Canadian taxes are significantly higher as a per cent of national income (GDP) than those of the United States. Canadian and U.S. government revenue derived from personal income are roughly comparable. This is because the lower proportion derived

from personal income tax in the United States is offset to a large degree by the higher amount derived from social security tax (see chart 48).

51. U.S. and Canadian revenues as a per cent of GDP, 1989



SOURCE Statistics Canada, National Income and Expenditure Accounts, U.S. Department of Commerce, Survey of Current Business.

List of Charts

1. Government outlay as a per cent of GDP, 1926-90 1
2. Transfers from government as a per cent of GDP, 1926-90 2
3. Major categories of expenditure as a per cent of total outlay, 1990/91 3
4. Government consumption expenditure as a per cent of GDP, 1926-90 3
5. Government debt as a per cent of GDP, 1926-90 5
6. Surpluses and deficits as a per cent of GDP, 1926-90 6
7. Interest paid on the public debt as a per cent of GDP, 1926-90 6
8. Government foreign debt as a per cent of total government debt, 1961-90 7
9. Government debt per capita, 1961-90 7
10. Public debt as a per cent of total public and private debt, 1961-90 8
11. Annual change in government input prices compared to prices of services in personal consumption, 1926-90 9
12. Government wages as a per cent of the average civilian wage, 1974 and 1990 10
13. Expenditure on goods and services as a per cent of total program expenditure, 1987 12
14. Transfers to persons as a per cent of program expenditure, 1987 13
15. Transfers to business as a per cent of program expenditure, 1987 13
16. Growth of federal and provincial Crown corporations, 1958-88 14
17. Subsidies hidden in loans by financial Crown corporations, 1979 and 1990 15
18. Growth of federal and provincial government expenditure on regulatory activities, 1977-89 15
19. Small business deduction and various corporate income tax credits, as a per cent of federal plus provincial corporate income tax revenues, 1974-87 16
20. Income and taxable income of corporations, 1968-87 17
21. Real government outlay per capita, 1966-90 19
22. Sources of annual percentage growth in government health expenditure, 1960-87 20
23. Sources of annual percentage growth in family allowance payments, 1947-90 21
24. Sources of annual percentage growth in old age security payments, 1952-90 22
25. Education expenditure as a per cent of GDP, 1966-90 23
26. Sources of annual percentage growth in government expenditure on elementary and secondary education, 1961-88 24
27. Government outlay on security as a per cent of GDP, 1966-90 25
28. Government outlay on general services as a per cent of GDP, 1966-90 26
29. Gross investment by government as a per cent of GDP, 1926-90 27

30. Government capital stock as a per cent of total, non-residential capital, 1926-90 28
31. Public capital stocks as a per cent of total, non-residential capital, 1926-90 28
32. Own-source revenue as a per cent of outlay on own programs excluding intergovernment transfers, 1926-90 29
33. Government outlay as a per cent of GDP, 1926-90 30
34. Federal share of program expenditure at the point of delivery, 1987 31
35. Government outlay per capita and by region, 1989 32
36. Government outlay as a per cent of gross provincial product, 1989 32
37. Government revenue and borrowing as a per cent of GDP, 1926-90 33
38. Taxpayer population, 1950-89 34
39. The Canadian tax mix, 1990/91 34
40. Personal and corporate income tax as a per cent of income, 1926-90 35
41. Total outlays of government as a per cent of GDP, 1989 37
42. Wages and employment in general government as a per cent of national totals, 1989 38
43. General government debt as a per cent of GDP, 1989 39
44. General government net interest payments, 1989 39
45. Government outlay on education and health as a per cent of GDP, 1988 40
46. Income support and subsidies from government as a per cent of GDP, 1988 41
47. Government program expenditure and gross investment as a per cent of GDP, 1988 41
48. Social security taxes as a per cent of total tax revenue, 1965 and 1989 42
49. Corporate income tax as a per cent of total tax revenue, 1965 and 1989 43
50. Revenue from taxes on goods and services as a per cent of total tax revenue, 1965 and 1989 43
51. U.S. and Canadian revenues as a per cent of GDP, 1989 44

The data on which these charts are based are available on request from:

Publications Division
Economic Council of Canada
P.O. Box 527
Ottawa, Ontario
Canada K1P 5V6